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The Case of Thailand

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Assessing Export Platforms: The Case of Thailand[1]

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List of Abbreviations

ASEAN	Association of Southeast Asian Nations
BOI	Board of Investment
EPZ	Export processing zone
IC	Investor Club Association
IEAT	Industrial Estate Authority of Thailand
RMTS	Raw material tracking system
TDMA	Thai Diamond Manufacturers Association
VAT	Value-added tax

1. Introduction

Before the 1997 financial crisis, Thailand was one of the countries in East Asia with the most rapid export growth. Up to 1995, its annual export growth rate was in the range of 8%–12% per annum, as compared to the 8.7%–9.6% average growth rates of other Southeast Asian developing countries. Such exceptional success can be attributed to such key factors as sound macroeconomic policies, aggressive policy to attract foreign investment, and abundant supply of cheap labor. However, Thailand would not have been able to jump-start its exports if export platform facilities had not been established in the early 1960s when Thailand, like other Third World countries, was aggressively pursuing its structuralist policies of trade protection and import-substituting industrialization.

Since then, there have been further developments of the export platform facilities in response to the changing industrial structure. Nevertheless, some export platform facilities are still plagued with serious problems. Most exporters, particularly the small ones, have severely criticized some facilities, especially the duty drawback facility, for being highly inefficient and thus affecting seriously their ability to compete in the world market.

This study will analyze the strengths and weaknesses of five export platform facilities in Thailand, namely the duty drawback system, the export compensation (or duty compensation), the bonded warehouse, the export processing zone (EPZ), and the duty exemption of the Board of Investment (BOI). We will describe the governing structure and bureaucratic procedures of each facility, and will attempt to quantify the cost of using each facility. The analysis will contribute to the understanding of how firms choose the export platforms facilities best suited for their purposes. Our hypothesis is that although a variety of export platform facilities are in place and available for use by all exporters, the overall system is biased in favor of the large scale exporters, particularly firms whose sales are 100% exports.

The research is based on a structured questionnaire survey of 17 firms conducted between July and October 1998. The researchers interviewed the officers who are in charge of implementing all five export platform facilities, and attended the seminar offered by the BOI and Department of Customs on the reform of the export platform facilities in September 1998. In the seminar, several small scale exporters openly discussed their problems and experiences with the export platform facilities.

Part 2 of this paper will discuss briefly the development of export-oriented industrialization, with an emphasis on the development of the export facilitating institutions in Thailand. Part 3 analyzes the governing structure and procedures of the five export facilitating institutions, and quantifies the time-cost and monetary costs incurred by the firms. Part 4 summarizes the recent developments in Thai export promotion facilities.

2. Historical Perspecitives on Thai Export Facilitating Institutions

The evolution of Thai export facilitating institutions and their corresponding export policies has been shaped markedly by the orientation of macroeconomic policies during each stage of economic development. Table 1 shows the chronology of this development. In retrospect, some export promotion schemes were in place as early as the 1960s, but these played a minor role, if any, in supporting Thai export industry. The reason for this is that the dominant macroeconomic policy of Thailand during this period had been formulated during the "import substitution" regime. It was not until the mid-1980s, when the government resorted to export promotion policy to boost the slackened economy, that the export facilitating institutions began to play a more active role in Thai export-led industrialization.

Table 1. Chronological summary.

Period	Events
State Capitalism 1940s–1950s	• Monopolization by the government of all importation and exportation activities. • No evidence of concrete export promotion policies.
Import Substitution 1960s–1970s (Conflict between import substitution and export promotion) **Note: 1/** The Customs Law under Section 19 previously allowed duty 9/10 drawbacks on imported merchandise subsequently re-exported. In 1971, it enacted the Section 19 bis to allow full drawback on raw materials or merchandise, mixed, assembled, or used for export industry.	• High levels of protectionism on capital intensive industries, such as textile, automobile, and pharmaceutical industries. • High tariff wall on finished consumer goods protect domestic manufacturing. Widening gap between the tax rate on consumer goods, machinery, and raw material. • Establishment of the Board of Investment in **1959**. • The Industrial Promotion Act passed by the government, providing incentives of tax and tariff concessions for both local and foreign investors in **1960.** • Inadequate export promotion policies. Among the actively employed tools were those aiming to offset the increase in cost of intermediate goods. • Various governments created disadvantages such as quantitative restrictions, tariffs, import bans and surcharges, and domestic content requirements on domestic sales of certain products (Herderschee). • In **1954–60**, the Industrial Promotion Act granted only the exemption or reduction in export duty under limited periods of time as export promotion schemes.
Export Promotion 1980s	• In **1971** the Customs Department allowed the duty drawback on raw material or merchandise used in producing products for export. • In **1971**, the duty compensation was brought into use through the announcement of the Ministry of Finance. • In **1971** the state reduced the import duty on raw materials for export industry. • Establishment of Export Processing Zones in **1972.** • In **1972**, under its export promotion incentives, the revised Investment Promotion Act offered the exemption on raw materials and intermediate items used in production process. • In **1973** the Customs Department allowed firms to place bank guarantee in place of cash settlement on import duty, under the duty drawback provision. • Establishment of the Customs bonded warehouse in **1975.** • In **1975**, the government increased the tariffs to aid recovery from the first Oil Crisis. • During **1967–72**, various international and local organizations publicly questioned the future of import substitution and recommended the use of export promotion schemes. • Amendments of Industrial Promotion Act to the Investment Promotion Act B.E. 1977. **Early 1980s**, Thailand faced economic recession and the aftermath of the second oil crisis. • In **1981**, the Ministry of Finance passed the Compensation Act to overrule the duty compensation announcement made in 1971. • In **1983–85**, major policy reforms were favored over export promotion. • In **1985**, the BOI relaxed its import duty exemption for raw material and machinery for projects located in Bangkok and Samut Prakan. • In **1987**, the BOI imposed bank guarantee requirements to slow down the dramatic industrial expansion. • Depreciation of local currency: down by 14.8% in **1984,** and by almost 30% between **1983 and 1991.** • Active export promotion tools: tax privileges and refunds, industrial zonings and export processing zones, electricity cost reduction, refinancing facilities, marketing assistance, international trading agency and firms, and quality control, for instance. • The BOI lowered its registered capital requirement for potential projects from 5 million baht to 1 million baht. • In **1992** the BOI liberalized its investment promotion criteria, which in effect overruled the requirement on bank guarantees. Establishment of BOI-

	TDMA cooperation committee to support companies in the diamond industry in **1993**.

Source: Chris Baker, Pasuk Phongpaichit, "Thailand Economics and Politics" 1995, Customs Announcement 1960s–1980s, Customs Department and the BOI.

To examine the patterns of development for key export facilitating institutions and export promotional platforms, we attempt to addresses the following questions. How has Thailand developed its export promotion platforms? What are the main export promotion schemes of Thailand and who are their administering agencies? How successful have export-stimulating instruments been in terms of incremental export volumes or activities?

The Thai economy has undergone three main phases of development: state capitalism in the 1950s; import substitution in the 1960s–1970s, and export promotion in the 1980s. In the 1950s, state capitalism was the chief macroeconomic policy because the ruling military government argued that it would help the government and local business people to retain economic power. In 1957, there were as many as 141 state enterprises (Rigg 1966: 305). The government not only placed severe restrictions on foreign trade undertaken by private businesses, but also monopolized all international transactions. As a result, export industries barely existed and export promotion policy was a neglected issue. (See Table 2.)

It was not until 1959 that the government, under the leadership of Sarit, implemented its restructuring plan for the economy in response to increasingly acute criticisms of its state capitalism policy. A distinct example is the IBRD research, which advised the state to scale down inefficient state enterprises and to promote manufacturing under private ownership by improving the legal framework, infrastructures, and credit systems, as well as by establishing an institutional structure for economic development planning (Phongpaichit and Baker 127, 1995). The government responded by introducing "import substitution policy," which encouraged the development of manufacturing industry under private ownership, and established the BOI. This BOI was designed to promote domestic industrialization and provide fiscal and non-fiscal privileges for foreign investment. To foster this policy, the government erected a structure of tariff protection which encouraged the manufacturing of consumer goods to substitute for imports in domestic markets. This resulted in the gap between tariffs on consumer goods and those on capital goods. It passed the Industry Promotion Act in 1960 to empower the BOI to grant such benefits to domestic manufacturers as well as foreign investors. Some of the fiscal incentives, designed to decrease the cost-increasing effects on intermediate goods and imported items, included duty exemption on raw materials and machinery under circumstances defined in the Investment Promotion Act. Furthermore, the Customs Department began to offer partial duty refunds on re-export items.

By the end of the 1970s, import substitution policy was being severely criticized. In 1967 the NEBSD questioned publicly the future of import protection. In 1969, the Bank of Thailand argued in favor of export promotion. In 1971, the preamble to the third five-year plan recognized the need for export promotion. Yet it also stated that protection could not yet be abandoned, and proposed no serious plans for export support (Phongpaichit and Baker 144, 1995). Despite these recommendations, the government resisted the change for several years because the import substitution policy was so dearly adhered to, and the fiscal policy refused to forego its revenue from import duties, which amounted to 30% of state revenue at the time. Therefore, it could be inferred that the export promotion strategies were mere lip-service during the import substitution stage in the 1960s and 1970s, as described by Akrasanee, Dapice, and Flatters (1991). Despite the state's pronouncement regarding changes in commercial policies towards export-oriented business, the actual incentives created by taxes, import tariffs, and export duties were increasingly import-substitution oriented.

One prominent by-product of the state's announcement of a shift in commercial policy towards export promotion is that several export facilitating institutions began to emerge during the 1970s, such as the bonded warehouse and the EPZs. However, one of the most commonly used export promotion schemes appears to have been the investment incentives offered by the BOI. In 1972, it promoted export-oriented industry by providing tax exemptions on raw materials and machinery, under the condition that firms export 80–100% of their total sales. Nevertheless, the tariff structure of

Table 2. The evolution of selected international trade-related policies in Thailand, 1944–90.

1944 to 1947	Strict control on trade and foreign exchange.
1947 to 1955	Multiple exchange rate system; less control on trade and foreign exchange; proliferation of state enterprises; low tariff protection.
1955 to 1961	Government stopped expanding its participation in industrial production; end of a multiple exchange rate regime; establishment of the Board of Investment.
1961 to 1967	Import substitution encouraged through the application of mild tariff protection and strong investment incentives for industrial production; new public enterprises were not to be established to compete with the private sector; no effective export-promotion scheme was in place.
1967 to 1971	Some relaxation of tax incentives for investment promotion.
1971 to 1976	Further relaxation of investment incentives; tax incentives for industry in promoted areas; stronger and more escalated tariff protection; more frequent application of controls on trade, industry, and price levels including imposition of a minimum wage law; stronger promotion of export-oriented and labor intensive industries, but several export industries receiving negative protection; import substitution of durable consumer goods and intermediaries encouraged.
1977 to 1986	Export promotion continued; another phase of import substitution through protection granted to heavy industries producing intermediaries and capita goods; discovery of natural gas in the Gulf of Thailand and the initiation of the Eastern Seaboard Development Program, a large scale industrial development plan; emphasis on restructuring industry and increasing efficiency and competitiveness; industrial decentralization encouraged.
1987 to 1991	Attempt to encourage manufacturing firms, particularly exporters to expands in technologically more advanced areas; emphasis on backward linkages of industry and greater involvement of Thais in management and skill acquisition; increasing concern for inter-regional income disparities, infrastructure problems and environment concerns; greater reliance on the market and the private sector; simplification of investment incentives; authorities considering rationalization of a range of trade policies, financial sector policies, and the exchange rate regime.

Source: Government of Thailand, and R. Chintayarangsan (1990), "Prospects for the Emergence of Additional NIEs in Southeast Asia: The Case of Thailand," in E. J. William and S.Naya (eds.), *Macroeconomic Structural Issues in the Asia-Pacific Economies*, East-West Center, Honolulu, Hawaii.

Thailand during this period continued to favor import substitution industries. In 1970, the state raised tariff rates in response to widening current account deficits and worsening balance of payment problems, resulting in the sharp increase in the nominal average tariff of consumer imports of 30–55%. Fortunately, tariff rates on raw materials and machinery remained constant at the time (World Bank, 1984). When the first oil shock hit Thailand in 1973, the government decided to cut import taxes on raw materials, intermediate inputs, and machinery to lower production costs for the industrial manufacturing sector. This change in taxes caused the effective rate of protection for finished consumer goods to surge to 44%. Then, in 1975, the rise in import tariffs caused the Effective Rate of Protection to rise to about 90%.

In the early 1980s, Thailand went through several uneasy economic adjustments, which eventually triggered the "export promotion policy." Even so, it did not become truly operative until the mid-1980s. At the beginning of 1980s, Thailand had a hard time coping with the aftermath of the second oil crisis and the economic recession. The level of external debts reached 30% of GDP, a level which was exceptionally high by Thai standards. Several large-scale businesses went bankrupt. Accordingly, the state finally initiated an economic restructuring plan and adopted an export-led economic orientation, in hopes of regaining the country's economic balance. In addition to this, other positive factors for export boom included the 1984 devaluation, the 1987 managed float, as well as the reforms designed to stimulate export growth. For instance, in 1985 the government reduced import taxes for materials used in exports, and abolished several export taxes. It was also during this time that the Customs bonded warehouse and the EPZ became widely used. In short, despite the government's initial resistance, the severe economic downturn stimulated a shift in economic orientation, which helped bring about rapid development and the policy adjustment towards export promotion platforms. Accordingly, there were various changes in favor of export promotion strategy, such as the change in the tax rates and the industrial decentralization to rural provinces. For instance, the first tariff restructuring took place in 1982, which helped lower the tariff rates. Then, in 1991, the state overhauled this tariff structure once again, reducing the tax rate on machinery. In addition, there have been a wide variety of policy reforms to support the export industry, such as the provision of 100% drawback by the Customs Department, but the most prominent scheme is the investment incentives offered by the BOI. These internal changes were supported by favorable external factors, such as the relocation of manufacturing bases of industrialized East Asian nations like Taiwan and Japan. This occurred where the labor costs were extremely high and domestic currencies appreciated to a large extent against the U.S. dollar. Therefore the relocation strategy substantially reduced production costs and enhanced competitiveness.

Under the export promotion regime, the following export platforms have been applied to support export industries. They are 1) the duty drawback provision as defined by the Section 19 bis. of the Customs Act; 2) the duty compensation; 3) BOI investment incentives, offered for promoted firms; 4) the Customs bonded warehouse; and 5) the export processing zones. Key export facilitating institutions involve the Customs Department, in charge of the duty drawback provision, the duty compensation, and the bonded warehouse; the Board of Investment; and the Industrial Estate Authority of Thailand (IEAT). A comparative overview is illustrated in Table 3.

Table 3. Comparative overview for major export facilitating institutions.

Characteristics	Customs Department	Industrial Estate Authority of Thailand	Board of Investment
Ownership	- Government agency attached to the Ministry of Finance	- State enterprise attached to the Ministry of Industry	- Government agency chaired by the Office of the Prime Minister
Export Promotion Measures	- Duty drawback - Duty compensation. - Bonded warehouse	- Industrial estates - Export processing zones	- Promotional certificate - Joint incentives with IEAT

Source: Board of Investment, Customs Department, and Guide to Industrial Estate, 1997.

First, under the Ministry of Finance, the Customs Department was created to deal with customs procedures in importation and exportation, together with the collection of relevant taxes. Under import substitution policy, the role of the Customs Department was in fact to foster domestic manufacturers through granting partial refunds or duty exemptions on re-exported items or raw materials under the Customs Act and the Investment Promotion Act. Initially, such fiscal incentives offered to domestic manufacturers were governed by the Customs Act, Section 19, which supplied partial refunds on re-exported items. The full duty drawback was introduced in 1971, through the Section 19 bis.

In the beginning, the Ministry of Finance considered the process a revenue generating unit, in that its import dues supplied 30% of all government revenue in 1960. This explains in part why the Ministry of Finance was among the opponents of the export promotion scheme. However, from the early 1970s to the mid-1980s, the state began reconsidering the merit of export promotion policy. In 1971, the Ministry of Finance assigned the Customs Department the task of administering the duty drawback provision under the Section 19 bis., as well as the duty compensation. The former offers a full refund for paid import duty, and the latter allows manufacturers to claim a partial compensation from business, import, and local taxes, among others. In 1985, export promotion policy became the vital part of Thai industrialization and thus the state implemented various measures in favor of the export industry. For instance, the state reduced import taxes for materials used in exports, and abolished several export taxes.

For this reason, the Customs Department has restructured consistently the import and export duty structure, and has initiated various strategies to entitle manufacturers to tax exemption and refunds. Some of these measures might appear in the form of 1) reduction and exemption of certain types of merchandise or intermediate goods; 2) reimbursement on raw materials used for producing for exports; 3) duty compensation; 4) exemption of import and export duties for exported goods under the bonded warehouse; or 5) various tax privileges granted for the BOI together with the IEAT export promotion regimes. Despite these measures, the duty drawback provision (Section 19 bis.) was not very effective, probably because of inefficient administrators, and delays and costs associated with the acquisition of the duty-free imported inputs (Herderschee, 1991).

The second export facilitating institution, the Board of Investment (BOI), was established in 1959 and became the principal government agency. It is chaired by the Prime Minister, with economic ministers, senior civil servants, representatives of major private sector organizations, and academics serving as Board Members or Advisors. It is responsible for providing incentives to stimulate investment in Thailand. Initially, the BOI's Industrial Promotion Act provided incentives of tax and tariff concessions for both local and foreign investors. It also provided a guarantee of government protection from nationalization and from direct competition by state enterprises, and a guarantee of rights of profit repatriation. To conform with the state import substitution policy, the BOI imposed the tax surcharges to protect certain industries, where promoted firms operated (Baker, 1995). These Industrial Promotion Acts were revised substantially in 1972 and 1977. With the amendment in 1972, this act became the

Investment Promotion Act, which provides more reinforcing benefits than its former versions. The 1977 revision relaxed some of the stiff promotion criteria and offered more advantageous export promotion schemes. In 1977, it set up an Investment Service Center intended to be the one-stop service to issue factory licenses and permits, especially to promoted foreign firms.

Since then, the Investment Promotion Act has undergone consistent changes in response to the state's industrial policy and public criticism. In 1983, the BOI formally announced its changes in promotion criteria, which were designed to shift promotional privileges from domestic manufacturing toward export oriented and labor intensive projects. In 1987, these criteria were once again modified significantly to maintain conformity between its criteria and other industrial schemes, as well as to address public criticism of its previous policies. For instance, it lowered the minimum investment requirement for export-oriented projects from 5 million baht to 1 million baht, and changed the corporate tax exemption criteria. In 1983, the main criteria for granting corporate tax exemption were the scale of investment, the number of employees, and the exemption period, which increased for large projects. Such requirements were perceived as strongly biased against small- or medium-sized manufacturers. However, in 1987, the exemption period depended on location, such that no exemptions were granted to projects in Bangkok and Samut Prakarn unless they were located on an industrial estate (World Bank 170, 1989). The promotional aspects had been criticized for complexity and delays, but at this time the BOI improved the administration of the promotion system, reduced the number of steps required for project approval, and expedited the overall process.

Despite these improvements, the BOI's major problem is still the lack of personnel to handle and to monitor the whole processes, creating cost-disadvantages to firms in certain industries, such as the diamond industry. Its policy does not spell out the potential industries for investment promotion, making it difficult for small enterprises. To address these operational delay problems, the BOI started to privatize its operation to Thailand Diamond Manufacturers Association (TDMA), one of its membership organizations in 1993. The rationale behind this is that from the diamond manufacturers' point of view, several BOI approval processes are too lengthy and complicated for such high value import items as raw diamonds. At the BOI, the approval of stock clearance can take three days, and BOI personnel still lack sufficient comprehension of jewelry manufacturing, making the approval of production formulae troublesome. To solve these problems, the BOI has assigned the TDMA various procedures to administer, including the selection of companies to get BOI's promotional certificate, the maintenance of membership database, the approval of production formulae, and the approval of input and raw material clearance. Under this scheme, the prime responsibility of the BOI is to supervise the overall process. At present, similar schemes have been proposed to the BOI for other industries as well.

The third institution created was the Industrial Estate Authority of Thailand, the state enterprise attached to the Ministry of Industry that serves as a mechanism to develop the country by decentralizing industries, or shifting them to rural provinces. It does this by establishing "industrial estates," which are fully equipped with standardized infrastructure and public utilities. Its implementation policies include both those for which the IEAT is directly responsible and those for which private organizations are partly responsible and which are supervised by the IEAT. Each industrial estate has two types of industrial zones, namely the General Industrial Zones and the export processing zones.[2] Manufacturers in these industrial estates are entitled to various tax and non-tax

[2] Full details of incentives offered in the General Industrial Zone and the export processing zones are attached in Annex 2. Projects that are located in the General Industrial Zone are automatically entitled to certain BOI promotional incentives, which vary with the location of the factory. For instance, the projects situated in zone 1 received minimal incentives, whereas those located in zone 3 received the most favorable incentives. This is also an example of the BOI's attempt to respond to the state's

incentives that are offered jointly by the IEAT and the BOI and are subjected to different customs procedures that take place in the industrial estate upon arrival and departure of the merchandise. Firms situated in the industrial estates corresponding to the BOI's defined zones may apply simultaneously for the BOI's promotional certificate, so as to benefit from its fiscal and non-fiscal incentives. As previously mentioned, the BOI has transformed its promotion policy consistently to conform to other investment promotion stances. One distinctive example is the joint incentive between the IEAT and the BOI. The Investment Promotion Act, revised in 1983 and 1987, stated that all provinces outside of Bangkok and its municipal area, or zone 1, were to be treated equally. As of 1989, there were three industrial estate zones: the Bangkok Municipal area, the ten surrounding provinces, and the remaining regions of the country. Hence, the BOI promotion criteria were amended to strengthen the relative attractiveness of the provinces that are farther away from Bangkok. For instance, the projects that are located in zone 3 are entitled to exemption of corporate income taxes for 8 years, as well as a 50% reduction for another 5 years.

To conclude, export promotion platforms in Thailand, though they were in place in the 1960s, did not become fully active until the mid-1980s, when the administration was improved and the state policy began to support export promotion. Over time, these export promotion platforms have adjusted to address public complaints and operational problems. Furthermore, certain changes have been made in response to the government's industrial development policy. Several types of instruments for export incentives deal with the reduction or the exemption on import duties and other types of taxes. Other forms of export promotion schemes include the export service centers and electricity rebates. At the moment, under control of three distinct export facilitating institutions, the five export promotion measures—duty drawback, bonded warehouse, tax compensation, the BOI's promotional certificates, and export processing zones—have been used widely by manufacturers, importers, and exporters in export industries.

Having examined the historical development of these export platforms over the past decades, the next question facing us is, to what extent do these export incentives contribute to growth in Thai manufacture exports, and which measures are the most effective?

Empirical evidence suggests that the relative importance of these export promotional measures has increased over time, especially during 1980s. One argument states that export incentives help improve export performance and enhance the manufacturers' competitiveness. On the other hand, a counter-argument claims that export incentives are correlated negatively with export performance of promoted firms and industries. This raises the key question of whether export promotion platforms are actually useful in improving Thai export performance.

On one hand, Han Herderschee (1990) studies the relative importance of the protection offsets or the export incentives relative to the credit subsidies. He defines protection offsets as measures used by the government to offset the cost-increasing effect of such protective measures as quantitative restrictions, tariffs, import bans, and surcharges on the domestic prices of intermediate goods. His argument follows that as the import content increases, the protection offsets increase gradually as a share of the value of exports. Thus, protection offsets increase as a share of the real effective exchange rate. In the absence of tariff reductions it is expected to increase further. Credit subsidies as a share of the real effective exchange rate have declined since 1980, and are expected to decline further because these subsidies will become redundant as financial markets are liberalized.

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decentralization policy. Also, it is worth noting that if a project is located in one of these three zones, but not in the Industrial Estates, it is not entitled to the BOI's incentives.

Table 4 shows that the relative importance of export incentives has changed dramatically between 1975 and 1985. In 1975, the export incentives were roughly of equal importance with credit subsidies, whereas in 1985 such export incentives were at least three times more important than credit subsidies. Also, the relative importance of export incentives were expected to increase and to become vital to the competitiveness of exports. In short, this study shows that export stimulating incentives are increasingly important to Thai export industries.

Table 4. Protection offsets and credit subsides as a share of Thailand's real effective exchange rate, 1972–87.

	Real effective exchange rate including export incentives (index 1972=100)	Share of the real effective exchange rate: Protection offsets (percent)	Credit Subsidies (percent)
1972	100	3.3	1.7
1973	91	2.6	1.7
1974	86	1.7	1.7
1975	84	1.7	1.7
1976	86	1.9	1.7
1977	84	2.2	1.7
1978	80	2.5	1.7
1979	80	2.4	1.7
1980	77	2.5	2.7
1981	--	--	--
1982	--	--	--
1983	85	3.4	2.1
1984	93	4.7	2.0
1985	108	6.1	1.9
1986	98	5.8	1.7
1987	100	6.1	1.2

Source: Han Herderschee, "Incentives for Exports: The Case of Thailand." Working paper No.91/10. National Centre for Development Studies.

On the other hand, Peter Warr (1994) argues that export incentives do not provide direct support to Thai export performance. He attempts to determine the extent to which export promotion policy contributed to Thailand's record of economic growth, which was led by manufacture exports. (See Table 5.) Warr examines the statistical relationship between the trade performance of industries and the government's interventions to promote them through the index of trade performance, which is the net export performance ratio of each industry. The analysis focuses on five instruments of intervention, including the protection of industry, the allocation of subsidized loans, the promotion of industries through the BOI, and the allocation of tax exemption through the customs office. Data on sixteen industries is divided with respect to each industry's allocation of the instrument shown by its share of total value added. Thus, an industry for which the resulting ratio exceeds unity receives a higher share of the total export promotion incentives than its share of total value added, and so forth. The result shows that export performance is negatively related to all five measures. In addition, the change over time in net export performance is negatively related to the change in all five instruments. Industries whose export performance worsened over time received increasing levels of support, but those whose performance improved tended not to receive such support.

Table 5. Correlation coefficients across industries: trade performance and industrial policy, 1970–89.

Period	Effective rate of protection			IFCT loan allocation			BOI projects		Tax drawbacks	Tax rebates
	1974	1984	1987	1960–69	1980–85	1986–90	1983–85	1987–89	1986–89	1986–89
1970–74	-0.06	-0.02	-0.08	-0.16	-0.03	-0.02	-0.24	-0.39	-0.16	-0.46
1975–79	-0.07	-0.11	-0.14	-0.18	-0.09	-0.08	-0.26	-0.47	-0.12	-0.39
1980–84	-0.06	-0.16	-0.15	-0.16	-0.11	-0.11	-0.23	-0.52	-0.11	-0.40
1985–89	-0.04	-0.14	-0.15	-0.17	-0.15	-0.25	-0.28	-0.52	-0.03	-0.35

Source: Peter Warr, 1995.

Despite this argument, it remains to be seen whether these export promotion platforms were ineffective. The examination of such statistical results is insufficient because this argument is not well supported in relevant literature, and because the economic model should go beyond a mere correlation analysis to draw a concrete conclusion against these measures. Furthermore, export-stimulating incentives have been recognized as one of the best policy reforms implemented by the government, and hence, it is still inconclusive to state that export promotion platforms are ineffective, according to Warr.

Are these measures equally significant in supporting export industries? Several sources show that they are not equally successful. For instance, the World Bank report no. 7445-TH remarks that the FPO and Customs Department schemes were cumbersome and costly to exporters, compared to the BOI's method of providing prior exemptions. Specific ally, the BOI's method was considered more efficient in providing access to duty-free inputs (63, 1989). To illustrate this point clearly, we could refer to the import duty drawbacks and exemptions statistics, as shown in Table 6.

Table 6. Import duty drawbacks and exemptions (millions of baht).

Year	Duty Drawback	Compensation	Bonded warehouse	Industrial Estate	BOI duty exemption *raw material only*
1971	24.37	NA.	NA.	NA.	NA.
1972	19.89	27.95	NA.	NA.	NA.
1973	15.00	375.27	NA.	NA.	NA.
1974	125.33	458.16	NA.	NA.	NA.
1975	188.64	373.29	NA.	NA.	NA.
1976	NA.	646.77	NA.	NA.	NA.
1977	164.1	1098.96	NA.	NA.	NA.
1978	NA.	1123.12	NA.	NA.	NA.
1979	NA.	NA.	NA.	NA.	NA.
1980	719.35	NA.	NA.	NA.	NA.
1981	1010.01	NA.	NA.	NA.	NA.
1982	1355.5	NA.	NA.	NA.	NA.
1983	1365.52	NA.	NA.	NA.	3301.00
1984	1839.78	1486.15	NA.	NA.	3919.68
1985	2992.5	1717.22	NA.	NA.	4718.51
1986	3069.07	2339.91	1410.32	136.62	6207.3
1987	3916.19	3416.53	NA.	NA.	10748.22
1988	5493.74	3984.42	2100	NA.	NA
1989	8550.95	6295.59	5412.86	806.14	NA
1990	11878.3	7020.63	8235.00	1637.00	NA.
1991	14777.00	8388.00	11253.00	3651.00	NA.
1992	18732.00	8767.00	18144.00	3542.00	NA.
1993	18616.00	7108.00	20183.00	7361.00	NA.
1994	18942.00	10399.00	16421.00	10792.00	NA.
1995	17369.00	9470.00	18099.00	12734.00	NA.
1996	15725.47	7063.41	14144.08	11670.75	47,734.33

1997	22756.39	5,514.71	10,528.91	11,137.22	47,753.23
1998	3,334.50	1,064.90	3,935.20	2,677.50	17,589.10

Source: Customs Department, Bank of Thailand, and the Board of Investment.

Table 6 shows the import duty drawbacks and exemptions granted through the five export promotion platforms.[3] Between 1971 and 1974, the duty compensation method was preferred to the duty drawback provision. (See Table 7.) The underlying reason was that manufacturers could receive a refund for several tax items—import duty, business tax, excise tax, and other taxes—incurred in production process, whereas the Section 19 bis. has allowed full refunds only on import duty. As a result, exporters and producers considered duty compensation to be more convenient. However, in 1974, prices of imported inputs rose sharply, making refunds granted through duty compensation less valuable than those granted through duty drawback provision. The prime reason is that the duty drawback provision was based on the value of import duty, whereas the duty compensation imposed fixed rates of tax refunds. Hence, exporters found that this instrument could not reduce significantly their cost of production, The amount of refund declined in 1975, while the amount of drawbacks jumped from 125.33 million baht to 188.64 million baht. (See Tables 8 and 9.) Refunds under the duty compensation improved by 1.7 times in 1976, due to the adjustment in compensation rates. From 1983 onwards, duty drawbacks and exemptions for all measures exhibited a strong upward trend, on account of the world economic recovery and Thai export boom. On comparable periods, the duty drawback provision and the duty compensation were less important than the exemptions granted through the BOI. The underlying reasons were that the BOI allowed foreign investors to apply for its promotion certificates, and that the foreign direct investment had increased to 32.49 billion baht during 1980–84, compared with 16.23 billion baht during 1970–79. In addition, the dramatic surge in BOI's exemption in 1986 of about 1.73 times could be attributed to the changes in some of its promotional criteria to allow projects situated in zone 1 to apply for its promotional privileges. As illustrated in Figure 1, Thai manufacture export industry performed exceptionally well in 1980s, and recorded the peak of 45% in 1987.[4] In 1996, Thailand experienced worsening export performance and that these drawbacks and exemptions decline by 6 %.

Figure 2 shows a similar interpretation. The patterns of the duty drawbacks and exemptions granted by the government conform to the rise in manufacture exports, rather than to the rise in total exports. We can therefore infer from the preceding analysis that the relative importance of Thai export promotion incentives has increased over time, and that these measures are of certain significance to Thai manufacture exports. Lastly, we draw the following general conclusions from the preceding statistics.

1. These five export promotion schemes have not been equally successful.
2. Some of them have been more effective to export industries, and some have been less supportive, leading to discrepancies in usage patterns.
3. Broadly speaking, they appear to have been positively linked to the manufacture export activities.

[3] The statistics of the BOI have not been gathered by the BOI officials or any other sources.
[4] Such success could be attributed to both external and internal factors. External forces included the depreciation of U.S. dollar, the rising cost pressures on manufacturers in Japan and the Asian NICs, and the devaluation of Thai baht in 1984. Internally, sound macroeconomic management and political stability in the 1980s had built up investor confidence in Thailand.

Table 7. Average rate of growth for the duty drawback provision and the duty compensation.

Export measures	Duty Drawback
1980–86	11%
1986–95	7%
1995–95	6%
1980–95	9%
	Compensation
1972–77	3.97
1984–95	0.97

Source: TDRI's calculations are based on raw data from Customs Department.

Table 8. Duty compensation rates.

Industry	Types of Goods	Compensation Rate
Electronics	Electrical appliances	2.25
	Electrical parts	2.25
Leather	All leather products	1.01
Textile		0.74
Diamond		0.23
Petrochemical		1.79

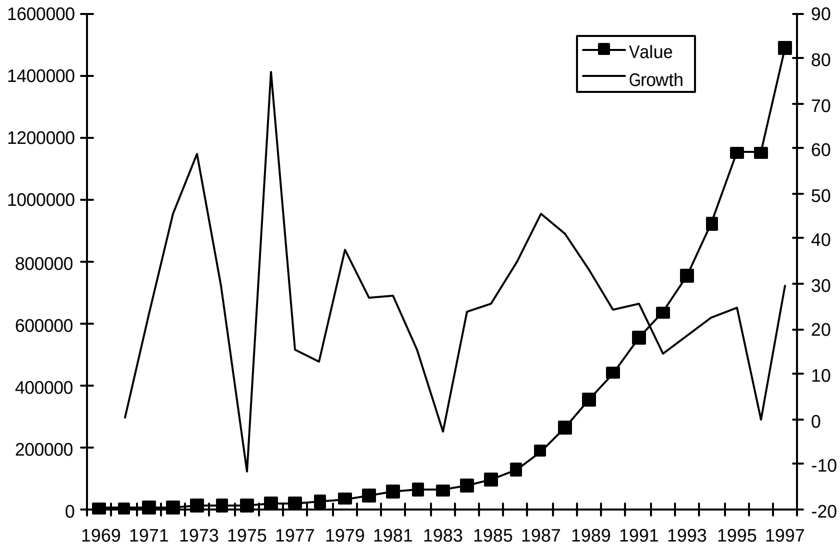
Source: Customs Department.

Table 9. Exports by commodity groups, 1969–76.

	1969	1970	1971	1972	1973	1974	1975	1976
Food	6,582	6,957	8,243	11,212	13,661	27,640	26,599	35,429
Beverages & tobacco	154	206	240	285	328	459	579	706
Crude materials	4,647	4,263	4,588	4,806	8,411	9,111	6,804	9,566
Mineral fuels & lubricants	40	45	130	269	414	386	249	120
Animal & vegetable oils & fats	3	14	18	9	34	43	43	39
Chemicals	23	33	44	75	162	335	243	268
Manufactured goods	2,158	2,188	2,508	3,475	5,861	7,977	6,419	9,336
Machinery	13	15	28	46	78	313	573	1231
Miscellaneous manufactured goods.	32	59	97	332	946	1340	1582	2432
Miscellaneous transactions &	435	471	781	1107	1251	1034	983	1062
Re-exports	622	522	598	875	1080	1161	933	608
Total	14,709	14,772	17,275	22,491	23,226	49,799	45,007	60,797

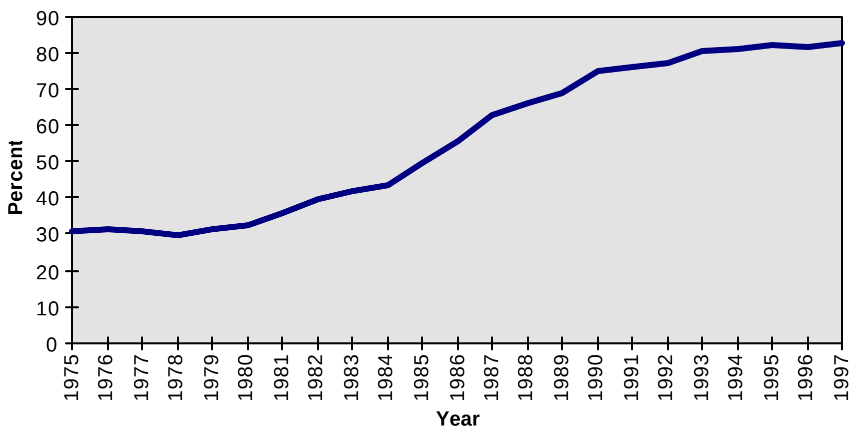
Source: Bank of Thailand Quarterly Bulletin (October 1979).

Figure 1. Annual growth rate of manufacture exports during 1970–97.



Source: Bank of Thailand.

Figure 2. Share of manufacture export as a percentage of total exports.



Source: Bank of Thailand.

3. Export Facilitating Institutions Analysis

A foremost implication that can be drawn from the previous analysis is that Thai export platform strategy is governed by the "multiple" approach, in which three export-facilitating institutions offer five export-stimulating incentives. However, as has been statistically shown, these schemes seem to be substituting one another, rather than acting at once. If we accept this hypothesis, the next question is whether multiple export promotion platforms have provided Thai manufacture exporters with more choices and flexibility.

To investigate this question, we combine descriptive analysis and industrial surveys to examine the following for each policy: 1) procedural aspects;[5] 2) strengths and weaknesses; and 3) problems frequently encountered by Thai manufacture exporters. Furthermore, we pinpoint how these obstacles hinder performance of Thai manufacture exporters by presenting real case studies with reference to participating companies. Most of the following analytical part is based on industrial surveys of 17 manufacturers in electronics, leather, and diamond industries, conducted between August and September 1998.

Table 10 shows the similarities and differences between the five export promotion platforms, including the types of incentives granted for each and their corresponding prerequisites. One can see that the BOI, the bonded warehouse, and the EPZ all offer duty exemption on raw materials, while the other two—duty drawback and compensation—provide full refunds and fixed drawbacks on paid import duties or other taxes.

Second, in terms of admission conditions, the BOI and the EPZ require potential agents to establish novel projects in Thailand. The bonded warehouse policy allows prospective manufacturers, as well as firms with existing factories, to establish a warehouse. Other types of schemes allow businesses that are already established to use the incentives.

Finally, these schemes impose particular controlling mechanisms on firms under each export promotion plan. For instance, the BOI and the Customs Department employ production formulae and create lists of raw materials to control volumes and types of imported raw material or merchandise. In the EPZ and the bonded warehouse policies, firms are subject to detailed examination by the Customs Department upon arrival and delivery of merchandise in and out of designated areas like the industrial estate and the manufacturers' bonded warehouse. Another type of controlling tool places duration limits on unused imported merchandise. Under the duty drawback system, imported merchandise must be produced, mixed or assembled, and exported within one year from the date of importation. These controls are essential to ensure that imported merchandise receiving fiscal exemption is used for exportation.

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[5] Only a brief summary will be shown in this section, as a detailed discussion of procedural aspects for all five export stimulating schemes is presented in Annex 2.

Table 10. Comparison of five export promotion measures.

	Duty Drawback Section 19 bis.	Bonded warehouse	Duty compensation	Export processing zone	BOI promotional certificate
Current registered users*	7,000	139 authorized warehouses	5,000–6,000	212 from 315 authorized firms	6,000 from 8,000 approved projects
1. Potential applicants	Importers both direct and indirect	Importers for export purpose	Exporters	Exporters	BOI-promoted companies
2. Types of incentives	Duty drawback on raw materials	Duty exemption on raw materials	Duty compensation	Duty exemption	Duty exemption
3. Forms of incentives	Cash/bank guarantee	None	Tax card	Duty exemption on raw materials	Duty exemption on raw materials
4. Value added tax settlement	Full refund on the paid value-added tax	None	Full refund on the paid value-added tax	None	None
5. Conditions prior to using privileges	• Approval of the statement of intent • Submission of production formulae before export	• Approval for the establishment of the bonded warehouse • Submission of production formulae before export	Application for the tax card	None	Approval of list of raw materials and production formulae
6. Durational conditions	Produce and export within 1 year from the date of import	Produce and export within 2 years from the date of import	Claim for refund within 1 year from the date of export	None	Produce and export within 6 months
7. Transferable items	• Right to claim duty drawback • Transfer raw materials to the bonded warehouse to extend the life	Transfer of raw materials between bonded warehouses	Transfer of tax card to anyone	None	• Transfer of raw materials between BOI promoted firms • Transfer of raw materials to company's warehouse after the promotional certificate expires
8. Insurance	None	10% of import duties of remaining inventories for each accounting period not exceeding 10 m. baht	None	None	None
9. Service charge	None	Annual fee of 10,000 baht	None	None	None

Source: Seminar supplementary (29 July 1998) by the Board of Investment .
Note: This includes current registered users as of July 1998.

Duty drawback. Starting with the duty drawback provision under the Section 19 bis. of the Customs Act B.E. 1939, exporters are provided with prior exemptions on import duties and business taxes for imported inputs, and they receive individual drawbacks on duties and taxes paid on them. However, it does not require individuals eligible for duty drawback to be manufacture exporters exclusively, and thus allows trading firms and other indirect importers to claim a refund on paid import duties and other taxes as well. Benefits are also available to existing businesses that are not under BOI's promotion and those not located in the EPZ. To be entitled to fiscal incentives under this system, potential agents must pursue the following steps.

- Submit a statement of intent to the Customs Department, detailing types of merchandise produced for exports and requesting approval.
- Prior to exportation, production formulae must be submitted to the Duty Refund Division for examination and approval.
- Within six months from the date of exportation, agents must claim the drawback at the Duty Refund Division.

However, duty drawback can be costly to the manufacturers because it requires bank guarantees, as well as a stipulated guarantee equivalent to the required payment of import duties. Another setback is that the customs procedures are cumbersome. This part will be highlighted later on in the time-cost analysis.

Duty compensation. The duty compensation policy grants a partial fixed refund on the basis of pre-determined input-output coefficients, and applies to inputs that are solely domestic, or to inputs that are both domestic and imported. Besides, qualified agents can also get reimbursed for duties on equipment, spare parts used in production process, as well as for taxes on utility charges. This scheme was offered to manufacture exporters, as outlined under the Customs Act B.E. 1926. That is, agents may obtain duty compensation on the products that are exported, whether or not the company's products are 100% exported. The compensation is made in the form of the tax card, which is a certificate that can be used as a credit for future tax liabilities. After agents have exported their products, they can apply for the tax card by doing the following.

- Submit a Bill of Export petition form to the Customs Department.
- When approval is granted, investors can use the tax card as credit against future tax liabilities from the Customs Department, the Revenue Department, and the Excise Department.

The prime advantage of this scheme is that its process is not complicated. Once manufacturers finish export activities, they can proceed to the Customs Department to process their application of the tax card. Despite the benefit of operational simplicity, duty compensation rates are so low that investors find them a major disadvantage.

Board of Investment. Next, the Board of Investment is empowered to grant both fiscal and non-fiscal incentives to the BOI-promoted firms. Some of these incentives include duty exemption on imported raw materials, on machinery, and on corporate income tax holidays. These benefits are also subject to zoning based on the BOI's defined areas. To obtain the BOI's promotional certificate, potential investors must consider the BOI criteria for project approval and then file an application to the Office of the BOI. Below is a brief summary of the BOI process:

- Prepare the required documents and submit the application forms to the Office of the BOI.
- When the project is approved, further documents must be sent to the BOI for the issuance of the promotional certificate.
- BOI-promoted projects are subject to periodical control by the BOI. For instance, manufacturers must inform the Office of the BOI in writing before they commence any operation.

The BOI is generally more efficient than other schemes and is less costly because it does not require guarantees of any forms. Still, certain manufacturers consider the BOI's approval processes for production formulae or raw materials complicated and inflexible.

Bonded warehouses. The Customs bonded warehouse allows exemption on raw materials and on indirect materials. However, the admission requirements for establishing the warehouse are much more stringent than those of the BOI or the EPZ. For instance, the bonded warehouse requires potential manufacturers to have registered capital of at least 10 million baht, and to possess warehouses at the time they make an application. Such high capital requirements exclude automatically all small to medium size exporters. The application process is as follows.

- Application for the establishment of the Customs bonded warehouse with required documents, including a three-year financial statement, import-export statistics of the company for the past six months, and blueprints of the warehouse.
- Initial guarantee amounts to 25% of import duties estimated from the values of the first-lot imported merchandise or raw materials.[6]
- When approval is granted, the bonded warehouse must be ready to operate.
- With the importation of products, customs officers stationed at the bonded warehouse must check the merchandise and conduct customs procedures.
- Periodical reports on importation, exportation, and remaining stocks must be submitted to the Customs Department every three months.
- Prior to exportation, production formulae must be submitted to the department.

Again, this tool is most appropriate for large-scale businesses because of high financial requirements.

Export processing zones. Finally, aiming to grant maximum benefits to manufacture exporters, the EPZ platform not only grants tax exemption on raw materials, but also grants other forms of benefits such as access to duty-free machinery, corporate income tax holidays, and partial to full exemption of utilities charges. To start operation in an EPZ, only three steps are required.

- Application for land use.
- Application for construction.
- Application for industrial operation.

Once potential investors gain approval for these preceding steps, they may start operation in the EPZ. Manufacturing exporters are subject to maximum benefits under this program, but initial investment is unavoidably high.

Selection of an export promotion strategy. Having seen operational and procedural overviews of these export-stimulating industries, we can generalize factors affecting firms' decision of which export platforms they will use. When selecting export incentives, firms consider both internal and external factors. Internally, they take into account the characteristics of their own products, proportions of import content, business orientations and export volumes, and size of business. In addition, they examine external variables such as import tariff of their raw materials, attractiveness of export promotion incentives, and costs associated with each method. The discussion below has been generalized from the industrial firms' survey. We present case analyses of three manufacturers—two large-scale manufacturers and one small firm—with respect to their choice of export promotion platform.

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[6] This rate is adjusted to only 10% of the import duty on the first-lot imports, or 10% of the duty charged on remaining inventories on each accounting date.

The first case we examine is the first integrated circuit manufacturer, a company that has been one of the biggest players in the Thai electronic industry for over 25 years. Initially, it was owned by a U.S. firm, but it has since changed its shareholder structure and is owned domestically. 100% of its total sales are exported under Original Equipment Manufacturing to several manufacturers, and 60% of its sales are exported to the U.S. market. Even though its sole product is the integrated circuit, this type of product requires a wide variety of raw materials and intermediate inputs. In terms of promotional privileges, it employs both the bonded warehouse and the BOI. With the expansion of manufacturing plants, it applied for the BOI promotional privileges in order to receive corporate income tax exemption for eight years, and the import duty exemption on machinery. In 1995, it began using the bonded warehouse to facilitate a transfer of goods to its local Original Equipment Manufacturing customers, because the transfer of products from one bonded warehouse to the others is regarded as exportation.

Second, we examined a large-scale electrical appliance manufacturer who is now employing the duty drawback provision, the duty compensation, and the BOI's promotional certificate. In operation for over 36 years, this firm has been one of the largest players not only in Thai electrical appliance industries but also in the ASEAN arena. Its product portfolio constitutes approximately 10 household goods, ranging from rice cookers to air-conditioning compressors, most of which are standardized. They are marketed both in domestic and in international markets. Overall, the average ratio of domestic to import content for all products are 80:20 percent. The first export promotion schemes employed by this firm are the duty drawback provision and the duty compensation. It uses the duty drawback for products that are mainly exported, whereas the duty compensation is used for both domestic and export-oriented merchandise. The duty drawback is applicable because their product designs are not changed frequently,[7] such as gas stoves and washing machines, and because 80% of their raw materials for such products are imported. The duty compensation is used when certain criteria apply to the particular product. Specifically, duty compensation is employed for 1) products that are mainly sold to domestic markets; 2) products for which import tariffs are relatively low; 3) product designs that change frequently; and 4) products whose raw materials are chiefly local content. The manufactures later applied for the BOI promotional certificate.

Initially, this manufacturer did not use the BOI's promotional privileges because its factory was located in Bangkok and the area not entitled to BOI's benefits. However, in 1990 it embarked on new projects and business expansion, leading to more active import and export activities. Thus, the new project made it eligible for BOI's incentives. Since then, it has used BOI's exemption privileges on their imported inputs and raw materials, instead of paying import duties under the duty drawback provision. Thus, it has reduced significantly its interest costs for the bank guarantee, required under the duty drawback.

Small-scale manufacturers face different circumstances. A case study of a leather manufacturer shows that choices for export platforms are limited compared to those of a large-scale manufacturer. Established in 1983, this company is owned domestically with 10% branded products, and 90% of products made to order and subcontracted by international corporations. Its main products include women's handbags and wallets. Some of the factors considered when the firm selected an export promotion strategy included 1) the fact that import tariffs of leather were comparatively high, 2) the high import content, and 3) the high percentage, 70–90%, of its products that were being exported. At the beginning, two choices were available to the company: the duty drawback provision and the duty compensation. These were the obvious choices because the BOI would not offer promotion privileges to such a small investment project; moving production site to the EPZ would have required high initial

[7]The amount of duty drawback depends on the formulae of input requirements. Each time changes are made in the product models or in the nature of the products, the exporters have to submit the new formulae for approval.

investment; and a substantial proportion of its products were to be used for domestic sales and thus the bonded warehouse was ruled out as an alternative. In the end, the firm used the duty drawback provision because the platform offered a full refund on raw materials, whereas the duty compensation granted only a partial refund. However, it encountered several problems with the duty drawback provision. Complex procedures for approving production formulae were disadvantageous to the company because its products relied on fashion and thus excessive delays burdened the company when customers wanted to change raw materials. These delays in cash reimbursement of drawbacks caused extra interest burdens. In 1995, it replaced the duty drawback provision with duty compensation for three main reasons. First, the duty compensation did not require the submission of production formulae. Second, its proportion of exports decreased to 70% and domestic sales increased to 30%. Finally, the import tariffs were reduced from 30% to only 5%, lowering the compensation rates from 3.61% to 0.91%. The primary reason for this change was not the financial aspect at all, since average duty refunds were 10% less than those offered by the duty drawback provision. Rather, it aimed to eliminate problems associated with approving production formulae, which was a major obstacle to its operation.

As we have seen from these examples, Thai export promotion platforms are biased in favor of large-scale manufacturers. Firms of great size have an advantage in terms of access to these export-stimulating platforms and in terms of privileges granted by export-facilitating institutions. Our survey reveals that certain large-scale manufacturers receive special treatment from these organizations. In terms of services, they encounter fewer problems compared to small- and medium-sized firms, because their export volumes are substantial and because they have a separate unit designed to deal with these export incentive schemes. In addition, we find that certain manufacturers have been favorably treated by these facilitating institutions, and have received benefits like lower tax rates. Furthermore, the exemptions provided by the Customs Department require that a bank guarantee be posted for the value of the duty exemptions being sought. Small firms may not have access to the commercial bank financing and may not have sufficient liquid resources to apply for the bank guarantee. As for other schemes, high registered capital and large initial investments are required, narrowing choices to small firms. In short, the multiple approach of Thai export promotion platforms does provide large-scale firms with greater choices and flexibility, but does not provide such benefits to small-scale firms.

Tables 11 and 12 list the major obstacles for export manufacturers in using promotional incentives. Some of these problems are common among registered users, regardless of industry, some are unique to specific industries. For instance, operational inefficiency associated with measures under the Customs Department is one of the common complaints among interviewees. A related industry-specific problem exists in cases like that of the leather manufacturers. These firms use the duty compensation and the duty drawback provisions, and are experiencing prolonged, complex approval processes of production formulae and raw materials deduction. This occurs because unprocessed leather is not standardized, making it difficult to determine the production formulae or to calculate the exact materials required per unit of finished product. The following section discusses some common problems associated with each measure, as well as problems specific to individual manufacturers.

Table 11. Strengths and weaknesses of export platforms.

Export Platforms	Strengths	Weaknesses
Section 19 bis. Duty Drawback Provision	• Benefits granted to both direct and indirect importers. • Appropriate for manufacturers with high import content. • Benefits available to all manufacture exporters, new or pre-existing.	• Customs procedures are tedious in terms of number of processes and levels of steps. • Cumbersome processes for the approval of production formulae and the list of raw materials. • Delays in reimbursing the approved drawback.
Duty Compensation	• Refund granted on both imported and domestic raw materials. • Production formulae are not required. • Implicit duties could also be compensated, such as utilities bills, fuels, etc. • Appropriate for manufacturers with high local contents. • No requirement on registered capital, thus making it appropriate for medium- to small-size manufacturers.	• Low compensation rates. • Delays in reimbursing the approved drawback.
BOI Promotional Certificate	• No interest burden on the manufacturers because the advance duty payment is not necessary. • Administering process that is totally free of extra charges. • No bank guarantee needed. • Corporate income tax exemption. • Exemption of import duty on raw material and machinery.	• Loopholes in controlling mechanisms, resulting in unlawful sales of products, approved for tax exemption. • Accessible to new or pre-existing manufacturers with new projects. • Bias against small enterprises. • Inflexible approval of production formulae. • Company requires a separate unit to deal with the BOI.
Customs Bonded Warehouse	• No interest burden on the manufacturers' viewpoint since duty payment is not necessary. • No control on the allowable import volumes. • Appropriate for large businesses with existing factories, aiming for export. • Exemption of raw materials.	• Accessible to large-scale business only. • Large number of rules to follow, and various requirements for the establishment of the bonded warehouse. • Extra unbilled expense for customs officers. • Requires the submission of production formulae.
Export Processing Zones	• No expenses burden once operation starts. • Appropriate for new manufacturers. • Production formulae are not required. • Exemption of raw materials.	• Factories must be located in the Industrial Estate only, making the initial costs expensive. • Possible labor strike and turnover, because large number of factories are located in the same area.

Source: TDRI Firms' Survey 1998.

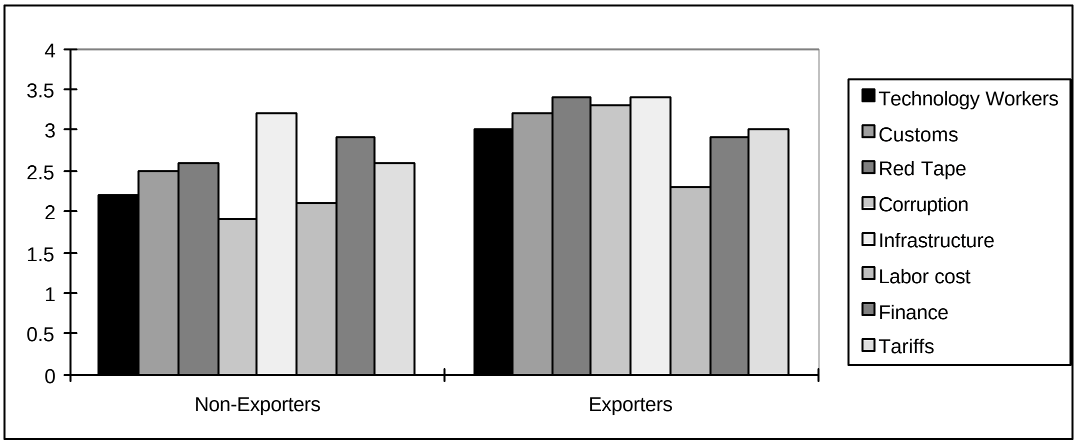
Table 12. Problems associated with each measure, summarized from the survey results.

Duty drawback provision	Duty compensation	Board of Investment	Bonded warehouse	Export processing zone
Electronics Industry • Customs formalities are cumbersome. • Inefficient services, such as import or export documents, are frequently missing at the Customs Department. • For industries with fashionable products, approval of production formulae is extremely inconvenient.	• Inefficient services. Key documents get lost, creating extra charges for the manufacturers.	• Before BOI privatization, charges of 10,000 baht per month must be paid for raw material deduction. • Separate approval documents are required for indirect materials, making the process complicated and resulting in excessive delay. • Troublesome stock deduction and production formulae approval. • Lack of BOI personnel to monitor the process.	• Stringent rules on the arrangement of the warehouse and that only authorized merchandise can be kept in the warehouse. • Six reports on import-export activities and raw material stock, must be submitted every 3 months. • Additional expenditures are needed, averaging 5,000 baht per month for Customs officers stationed at the bonded warehouse. • Officers are not fully authorized to approve the release of imported items, creating extra costs.	• Zoning controls. • Labor shortage. • Loose controls imposed by the Industrial Estate Authority.
Leather Industry • Production formulae are complicated to formulate because raw leather is not standardized. • Different names under different suppliers for the same raw materials introduce big problems for refunding the drawback. • Products are fashionable and thus the production formulae must be adjusted frequently.	• Low compensation rate. • The import duty of leather is very high, making this process disadvantageous for manufacturers.			• High initial investment. • Labor shortage and labor strike problems in the Industrial Estate.
Diamond Industry		• Delays in approval of raw material clearance and overall process (before TDMA).		

Source: TDRI Firm's Survey 1998.

Dollar and Hallward-Driemeier (1998) conducted a industry survey comparing bottlenecks facing both exporting and non-exporting Thai firms. (See Figure 3.) They interviewed over 1,200 firms between November 1997 and April 1998 to examine the impact of the crisis on their performance, the difficulties encountered in restructuring, and the long-term problems in improving their competitive edge. In the long term, exporting firms report more difficulty in increasing their productivity than non-exporting firms do. Not surprisingly, they identify customs administration, corruption, and bureaucratic red tape as serious bottlenecks.

Figure 3. Bottlenecks facing Thai firms.
(firm rating on a scale of 1=no problem to 5=severe problem)



Source: Data from Dollar and Hallward-Driemeier.

First of all, procedures assigned to the administration of the Customs Department are generally costly and inefficient to manufacturers. Some common problems include procedural red-tape, prolonged and inefficient services, delays in obtaining the cash drawback, and extra expenses for manufacturers such as under-the-table money. Export platforms administered by the Customs Department are notoriously tedious in terms of paperwork. Previously, it took three days to finish a document check. As a result, manufacturers or shipping agents were incurring extra non-billable charges for the operating officers to expedite these document checks and approval processes. Secondly, customs operations have been done manually, and thus inefficiently. In some cases under the duty drawback provision and the duty compensation, agents have lost key documents such as Export Licenses, Bills of Entry, or Commercial Invoices during the customs operation. Consequently, firms have not only incurred additional expenses for the re-issuance of those documents, but have also been set back 15–30 days while these documents are processed. Another common complaint among the current users of the duty drawback and the duty compensation is the excessive delay in receiving the cash reimbursement as a drawback, which can take anywhere from 3 to 12 months.

Also, under the administration of the Customs Department, the bonded warehouse has been identified by manufacturers as having two sets of problems. These problems involve extra costs to the manufacturers and a complicated system of rules and requirements. First, the bonded warehouse requires a customs officer stationed at the warehouse to control the arrival and the release of merchandise or raw materials stored in the area. In certain cases, manufacturers incur extra charges for customs officers at the warehouse. Furthermore, these officers are not fully authorized to approve the release of imports or exports, which means that additional costs must be paid in order for manufacturers to process their petitions at the Customs head office. The bonded warehouse is also subject to rigid controls. For instance, producers must report its import-export activities and levels of inventories to the Bonded Warehouse Division quarterly.

As for the export promotional privileges under the Board of Investment, BOI's administration has been generally more efficient than that of the Customs Department. However, its schemes have not been without flaws. First, the lack of personnel has long been recognized as one of its major problems. As a result, the BOI's capacity for project and data analysis and monitoring processes continues to be limited. It used to be that the approval of input or raw material clearance took three days before the Customs Department released the imported items. This is indeed a major obstacle for manufacturers in the diamond industry, for example, because the imported raw diamonds are expensive and hence delays during the release of raw materials translate to an increase in opportunity costs. Second, its approval of raw materials and production formulae can be troublesome to certain industries. For instance, electronics manufacturers comment that they need separate approval for their indirect materials such as chemicals and spare parts, which results in additional paperwork and delays in stock deduction. Lastly, BOI's promotional privileges are not accessible to small-sized manufacturers nor to those with pre-existing factories.

Out of the five export promotion platforms, the EPZ is subject to the fewest operational problems. However, the initial investment for firms to establish in an EPZ is relatively high. In addition, firms occasionally face labor problems such as labor shortages and strikes.

At this time we would like to spotlight how these obstacles hinder the performance of Thai export manufacturers. Paying special attention to time and cost required under each export promotion regime, we attempt to underline the reasons why some export promotion schemes are at a cost-disadvantage to the manufacturers, and why such measures fail. In addition to this issue, we attempt to determine whether the promotion incentives truly foster better export performance in Thailand.

Starting with a defining case analysis of time and cost under each strategy, we identify time and expenses required under normal circumstances, rather than focusing on worst case scenarios such as miscommunication between Customs officers and manufacturers, and loss of key documents for refunding the drawback. Then, we extend our analysis of how these time-cost scenarios could affect the performance of Thai export manufacturers, giving a case study of manufacturers in leather industry.

Table 13 shows a time-cost comparison for five export promotion schemes, with respect to three areas, namely admission and other requirements for using each measure, importation steps, and reimbursements of drawback and compensation.

Table 13. Comparison of time required and expenditures.
***Time: No. of days *   Note: Time estimates are for cases in which documents are complete.**

Duty drawback	Time (days)	Bonded warehouse	Time (days)	Compensation	Time (days)	Board of Investment	Time (days)	Export processing zone	Time (days)
Initial admission process									
• Approval of statement of intent	3	• Examination of warehouse, approval of statement of intent, production formulae, and final check	90–150	• Application for tax card and approval process [3/]	0	• Application for BOI promotion privileges.	75–105	• Application for and approval of land use, construction, and industrial operation	30
• Approval of production formulae	30					• Issuance of BOI promotional certificate.	210		
						• Approval of list of raw material, indirect materials, and production formulae	30		
Importation									
• Customs formalities and import examination	3	• Customs formalities and import examination	3	• Customs formalities and import examination	3	• Customs formalities, import examination, and BOI examination	3	• Customs formalities and import examination	3
Drawback and refund						Total approval process	285–315		
• Drawback payment	30			• Refund granted	20–30				
						Total excluding approval process	33		33
Total days consumed	66		93–153		23–33				
	Cost		**Cost**		**Cost**		**Cost**		**Cost**
Use of privileges		• Guarantee of 25% on duty charges calculated based on values of initial imported raw materials or on the duty values (≤ 10m. baht)							
		• Annual charge	10,000 baht						
Importation									
• Duty payment (cash or bank guarantee)	According to the duty			• Duty payment	According to the duty				
Shipping Agents' Service charge per shipment [1/]	1,500–2,000	Service charge for shipping agents	1,500–2,000	1–2% of the value of duty refund sought for compensation [2/]		Service charge for shipping agents	1,500–2,000	Service charge for shipping agents	1,500–2,000

Note 1) This rate is applied to general cases such as import or export merchandise comprised of a few products or a few types of raw materials. Service charges also depend on the weight of imported or exported goods, the variety of products in each shipment, and the number of containers or packages, for instance. For at least 3 containers, the average charges amount to 4,000–5,000 baht.

2) Service charge for duty compensation is reduced to only 1%, due to high competition among shipping agents. For increasing value of duty compensation sought, the service charge is lower depending on the agreement between the firms and the shipping agents.

3) When agents complete customs formalities for export, they can then apply for a tax card.

Source: BOI, Customs Department, IEAT Report, and TDRI Firms' Survey, 1998.

Analysis of Time and Cost. To analyze the time required for these export platform strategies, it is necessary to look at both the admission processes and the procedures for using the privileges. This division of tasks is necessary because the application phases of the individual schemes differ substantially from one another. For instance, the BOI requires full project appraisal of potential applicants, consuming 75–105 days, but the admission requirement of the duty drawback takes only 3 days. Hence, if the analysis of time and cost for export promotion platforms excludes the first stage of the process, this may distort the actual time required.

As far as admission processes are concerned, those of the BOI and the bonded warehouse require the most time, whereas the time required for the other platforms is at most one month. The underlying reasons for the lengthy admission processes of the BOI and the bonded warehouse are the numerous admission requirements and the detailed project investigations. For instance, the application for and the approval of BOI's promotional certificates demand many intermediate steps, including 1) information and documentation, 2) submission of application forms to the Office of the BOI, 3) a meeting with the BOI official, and 4) the BOI's decision whether to approve or to reject the application. In the case of the bonded warehouse, approval processes are slightly more thorough than those of the BOI, in that the Customs officers must investigate the manufacturers' facilities to be used as the bonded warehouse. After gaining approval from the Bonded Warehouse Division, agents must follow strict instructions given by the authority. Once all requirements are met, the committee will re-evaluate whether the proposed warehouse may commence operation. It is easy to see why the time intervals required for the BOI and the bonded warehouse are longer than that of other measures.

Having finished the admission processes, qualified manufacturers must submit their production formulae. The approval duration of production formulae is relatively similar. The duty drawback provision requires 30 days for this process, as does the BOI. As for the bonded warehouse, this process, which demands approximately 30 days, is embedded in the admission process and this is accounted for in the first step. The approval of production formulae is not compulsory for the other schemes because other forms of control are used.

As mentioned earlier, these processes are only subject to minor differences in terms of customs formalities. Hence, estimated times are almost the same, taking approximately 3 days.

Table 14. Comparison of customs formalities upon arrival of imported goods.

Normal Process	Duty Drawback	Duty Compensation	Bonded Warehouse	EPZ	BOI
Document check	✔	✔	✔	✔	✔
Price examination	✔	✔	✔	✔	✔
Duty calculation	✔	✔	–	–	–
Duty payment	Bank guarantee	Cash	–	–	–
Customs examination of goods	✔	✔	✔ At the warehouse	✔ At the Industrial Estate	✔

Source: Customs Department and the BOI Seminar Supplement, July 1998.TDRI.

For those measures that grant drawback and refund, agents can collect cash refund within 30 days for the duty drawback and within 20–30 days for the duty compensation. It is essential to note that this estimated time can be achieved only if the documents are complete and accurate.

As for the initial cost for using the privileges, the bonded warehouse is the only scheme that requires an initial guarantee accounting for 25% of the value import duties calculated from the first-lot imports of manufacturers, in cases where plants are newly established. For manufacturers with existing facility, the guarantee is only 25% of the value of duty based on the ending inventory of raw material at the end of the accounting period.[8] In addition to this initial guarantee, manufacturers have to pay an annual fee of 10,000 baht to the Bonded Warehouse Division. For manufacturers who use the duty drawback provision and the duty compensation, import duties must be paid upon the arrival of goods. The amount of tax charges is calculated based on the values of imported items.

Finally, manufacturers incur shipping service charges, amounting to 1,500 to 2,000 baht per shipment. For those who use the duty compensation, the shipping service fees are approximately 2–3% of duty refunds.

In practice, time and cost shown in table 4 differ significantly in certain cases, which are 1) submissions of incomplete and inaccurate documents, 2) delays in submitting the documents, and 3) operational delays. As a result, investors must shoulder extra costs or interest burdens caused by delays in duty refund process. For instance, it takes investors anywhere from 2 weeks to 1 year to receive cash reimbursement under the duty drawback provision. Our survey of firms indicates that for large firms, a cash refund is available for collection from 2 weeks to 3–4 months. For small- and medium-size firms, it consumes 3 months up to 2 years to collect the drawback. The value-added tax (VAT) refund, despite its stipulated time to refund of 45 days, has kept manufacturers waiting 4–6 months. Under the duty compensation, it takes 1 to 3 months for the issuance of the tax card.

From the macro perspective, these export promotion platforms are also associated with high social costs. As for the Customs Department, 70 officers are employed to deal solely with the duty compensation, whereas the duty drawback provision requires 100 officers. The average cost for administering these systems is 10.92 million baht for the duty compensation and 15.6 million baht for the duty drawback. The manufacturers need to hire additional staff or a separate division to take care of customs processes. Such expenditures can range from 7,000 to 13,000 baht (Customs Department, 1998).

Consequently, firms must shoulder the following costs: an opportunity cost on cash paid for VAT, extra unbilled expenses to expedite the process, and an opportunity cost on money placed in the account for bank guarantee. To illustrate these costs, we present the following cost scenario in Table 15, which is estimated from the firms' survey.

The analysis shown in Table 15 is limited in a few ways. First and foremost, the cost structure and itemized expenses are confidential information, which limits the calculation of duty drawback and compensation. Second, these expenses rely on values of imports and hence the above scenario is simplified to present a rough estimate of burden investors must shoulder. In addition to extra unbilled charges incurred during the operational process, manufacturers have to shoulder opportunity costs or foregone interest incomes from the expected refund of drawbacks.

[8] The guarantee is adjusted downward to 10%.

Table 15. Estimated expenses for leather manufacturers under the duty drawback privilege and the duty compensation.[1/]

Items	Duty drawback (baht)	Duty compensation (baht)
Value of duty levied on imports	1,000,000	--
Export values	--	1,500,000
Bank service charges (1% per year)	10,000	--
Shipping service charges for claiming drawback and compensation	0.1–0.2%	1–2% of duty refund sought
Estimated shipping service charges	1,000–2,000	136.5–273
Total expenses under normal circumstances	11,000–12,000	136.5–273
Case for six-month delay	16,000–17,000[2/]	136.5–273

Note 1/ We make the following assumptions:

1) The calculated import duty on imported raw material equals to 1,000,000 baht.
2) 100% of total products are exported, and the export value amounts to 1,500,000 baht.
3) Value of expected duty refund; 13,650 baht.

2/ In the case of a 6-month delay for the duty drawback, we add 5,000 bank service charge for six months to total expenses under normal circumstances.

Opportunity cost for export promotion system

In short, although Thailand has five major export promotion platform options, there are two problem areas that remain unsolved. First, the policy regimes are biased in favor of large firms. Second, bureaucratic delay and operational problems remain the key issues subject to public criticism. Recently, these export facilitating institutions have become more responsive to these complaints and thus have introduced various changes to expedite export promotion administration in the hope of promoting Thai export performance.

4. Recent Development in Thai Export Promotion Platforms

The economic crisis of 1997 has indeed sparked several policy reforms in Thailand, including changes in the five export promotion platforms to facilitate Thai manufacture exporters and to enhance their performance. As we have seen in part two, a great number of users of the duty drawback provision and the duty compensation criticize that services are inefficient and bureaucratic, resulting in extra unbilled charges and delays in importing and exporting procedures. As for the BOI, its capacity to handle the process and its bias against small firms are seriously criticized. To rectify these problem issues, these institutions have implemented various improvements which are discussed below.

Administrative overhaul in the Customs Department

Since the beginning of 1998, the Customs Department took a bold step towards overhauling its bureaucratic administration. For one thing, it conducted public surveys regarding the overall satisfaction and problems encountered. Various changes followed widespread response regarding the previously mentioned problems, specifically bureaucratic operation, complex approval procedures, and delays in duty refund.

First, it has revamped the customs formalities for importation and exportation. Formerly, these procedures required cumbersome checking steps, which consumed 1–2 hours and employing 6–7 officers. The new system, referred to as the “long room,” divides the officers into two sections called the front part and the back part. Although both methods follows the same procedures, checking documents and checking prices, the required steps in the latter are substantially reduced. In effect, the long room measure requires only 3 officers, using only 30 minutes to finish the process. Some special cases require only 15 minutes and 2 officers to complete. This occurs in the entry of imports that belong to state-owned organizations, state enterprise, BOI's investors, and exporters with the ranking of "excellent."

With respect to the duty drawback provision, the Customs Department has implemented the following plans: 1) one-stop service; 2) standardization of production formulae and post-examination of product samples; and 3) EDI. To solve bureaucratic delays and loss in key documents, the Customs Department introduced the one-stop service, which handles every step for claiming the drawback. To minimize the possible loss of key documents, manufacturers can now wait for such documents, when importation or exportation processes are finished. To expedite production formulae approval processes, the Department has standardized the production formulae and sampling examination of product specimen. In the future, Customs Department aims to transform the custom procedures to "paperless era" by using EDI, which is the on-line network, linking importers, exporters, forwarders, banks, Port Authority, Department of Commerce, and other related institutions. To achieve this objective, the Customs Department has introduced the position of Customs broker to achieve uniform performance of forwarders and shipping agents. The aim here is to increase the role of the Customs Department in customs procedures and thus reduce unnecessary delays. These Customs brokers offer their service to exporters considered "excellent" and "good" only.

In order to facilitate exporters, the Customs Department has introduced "categorization of exporters" which classify exporters to three groups: excellent, good, and general. Together with this method, the Customs Department also brings in the post-audit system, whereby excellent and good exports are able to waive certain steps upon the importation or the exportation of goods. Then, the Customs Department calls upon the documents for post check. Excellent manufacturers also gain other benefits, specifically in the reduction of days required to complete the process. For instance, they could have their production formulae approved within 10 days, rather than the 30 days required for standard procedure. Besides, if the production formulae have not yet been approved within the specified time interval, these manufacturers have the right production formulae applied to the Customs Department. In this case, the production formulae will be audited afterwards as well.

Table 16. Estimated time frame for varying categories of exporters.

Categories of agents	Initial approval	Production formulae	Investigation of sample	Certify the formulae	Duty refund	Total (days)
General	3 days	30 days	Compulsory	7 days	30 days	70
General Using Guarantee	3 days	30 days	Compulsory	7 days	Advanced refund within 5 mins.	40
Excellent Customs Broker	1 day	10 days	Relax	Not required		11
Fine Customs Broker	1 day	10 days	Relax	Not required	15 days	26
Excellent Exporters	1 day	10 days	Relax	Not required	15 days	26
Fine exporters	2 days	20 days	Compulsory	5 days	20 days	47

Note: These time frame estimates are based on the condition that export documents are accurate and complete.
Source: Seminar Supplements, Customs Department, July 1998.

Finally, the Customs Department has relaxed its policy on cash or bank guarantees for settlement of import duty. Previously, it required that investors deposit the amount of cash equivalent to the import duty paid upon the arrival of goods. To alleviate this burden on manufacturers, the Customs Department has introduced two schemes: the reduction of required rate for bank guarantee and a special guarantee.

First, for different categories of exporters using bank guarantees as collateral for duty payments, the Customs Department announced a 50% reduction in import duty from the normal rate for qualified agents, and a 95% reduction for exporters in the excellent category. Second, the Customs Department has joined hands with KrungThai Bank to offer a special type of bank guarantee, by which the required deposit need not be equivalent to the actual payment of import duty. This system enables manufacturers to reimburse drawbacks within five minutes, with the understanding that firms are subject to post-audit. Banks will estimate the duty payment and charge interest rate of 2% during the first six months. Then, it would issue quarterly the guarantee based on actual export values.

Table 17. Current development in the duty drawback provision.

Problem areas	**Past**	Present	Future
1. Operational division	Several divisions, with different locations.	One-stop service for all procedures, classifying by importers' code. (Each officer will be assigned certain industries or manufacturers.)	One-stop service for all procedures, classifying by tax code.
2. Document controls	Proceed with specified registration procedures at respective offices.	Release of key documents after customs formalities for importation and exportation are finished.	Control and follow-up of key documents such as the Bill of Entry and Export License through on-line system and EDI.
3. Examination of production formulae	Voluminous paperwork required for this step.	Standardization of production formulae and relaxation of specimen test.	Establishment of joint institutes between private and state departments to produce standardized formulae for each category of products proposed by the Ministry of Finance and Budgetary Office.
4. Drawback reimbursement. Final check of duty drawback forms. Collection of duty.	Manual-based system.	**2 systems** - Manual Post Audit (Advance refund then check later). - Bank guarantee with KrungThai Bank, linked by on-line system and Customs Brokers.	Paperless Era by using the EDI to control overall processes. 1. Customs procedures for importation. 2. Exportation processes. 3. Duty payment and refund. 4. Payment through banks. 5. Release of goods

Source: Seminar Supplement, Customs Department July 1998.

Although these improvements have shown extremely positive signs towards future development in the Customs Department, corruption problems remain unresolved. The industrial survey shows that the revolution of customs operations helps to accelerate various approval processes, but that unbilled charges remain troublesome. Shipping agents and manufacturers reveal that even though these unbilled charges are lower compared to the period before these policy reforms, operating officers still demand payment. Also, this area has been identified as one of the major obstacles of the EDI system. As of now, the EDI is used for exportation only, whereas there is no specific plan to introduce this on-line system for importation procedures. Some investors argue that it is natural for operational officers to resist change since the EDI system would eliminate completely the physical contact between manufacturers and Customs officers.

BOI's recent operational and policy adjustments

The BOI has always been a preferred method to export-stimulating incentives, mainly due to benefits offered to investors. Despite its marked popularity among investors seeking for promotional supports, the BOI has encountered several problems stemming from the inadequacy of personnel that seriously hampers the BOI's capacity to handle procedures. This includes 1) project approval, 2) approval of production formulae, and 3) approval of list of raw materials, stock deductions, and input clearances. It has also long been criticized to be biased against existing manufacturers and small firms.

First, the BOI has approximately 100 personnel to handle its overall approval procedures. As a result, most investors find the approval procedures for raw material clearance and stock deduction unnecessarily tedious. To solve problems of understaffing and the amount of time required, the BOI has privatized certain parts of its operation. It has appointed the Investor Club Association and the Thai Diamond Manufacturers Association as separate membership entities handle the latest computer-based stock deduction and raw material clearance process.

Introduced in 1994, the raw material tracking system, or RMTS, is the on-line computer system aims to expedite the approval procedures for raw material and input clearance, as well as those of stock deduction. The RMTS is now handled by the Investor Club Association (IC) and the TDMA.

The differences between IC and the TDMA are in the type of access and services offered. While the access to RMTS via the Investor Club Association is available to interested BOI investors regardless of industry, the TDMA restricts its RMTS service to only membership diamond manufacturers and companies in the same jewelry industry. With respect to procedural aspects, the IC handles only two steps of the RMTS: the approval of raw material clearance and the approval of raw material or input deduction. The TDMA offers more complete services, including 1) maintenance of members' database, 2) examination of essential details such as the level of raw material in the account, 3) preparation of relevant approval documents to the BOI and the Customs Department, and 4) issuance of approval letter for raw material clearance.

Employing the RMTS rather than the traditional procedures provides investors several benefits. For instance, the RMTS offered by the Investor Club Association has significantly reduced previously tedious and time-consuming processes. Investors can now have approval on their raw material and input clearance within 3 hours, as compared to the three days required previously.[9] Also, they are able to complete the raw material and input deduction process within one day, whereas the former system required 9–15 days. Accordingly, the RMTS now serves 700–800 BOI's registered investors.

In 1993, the BOI-TDMA RMTS originated from mutual agreements of BOI-TDMA Coordination Committee to minimize approval processes for raw material clearance and input deduction. This meant the TDMA began making quarterly statistical and descriptive reports on raw material clearance and input deduction activities. This scheme has been favorably recognized for the following reasons: 1) the reduction of workload on BOI's officers; 2) the minimization of opportunity cost, i.e. interest rate on bank guarantee or cash deposit on imported diamonds; 3) the better understanding of production formulae and remnants from production processes; and 4) the reliable and rapid services of TDMA-RMTS. For instance, the diamond clearance process, including Customs' release of imported goods can now be completed within a single day if the manufacturers file the required documents before 10:00 a.m. and if the transportation used is air-freight.

Table 18. Comparison of expenditure for IC-RMTS and BOI-TDMA RMTS.

Types of fees	Investors' Club Association	TDMA
Admission Fee:		
- Membership	7,500 baht	Initial: 50,000 baht
- Non-membership	10,000 baht	Annual maintenance: 20,000 baht
Service Charges:		
- Raw material/input clearance	40 baht per invoice	130 baht per invoice
- Raw material/stock deduction	40 baht per entry manifest	130 baht per entry manifest

Source: Seminar Supplement, BOI July 1998.

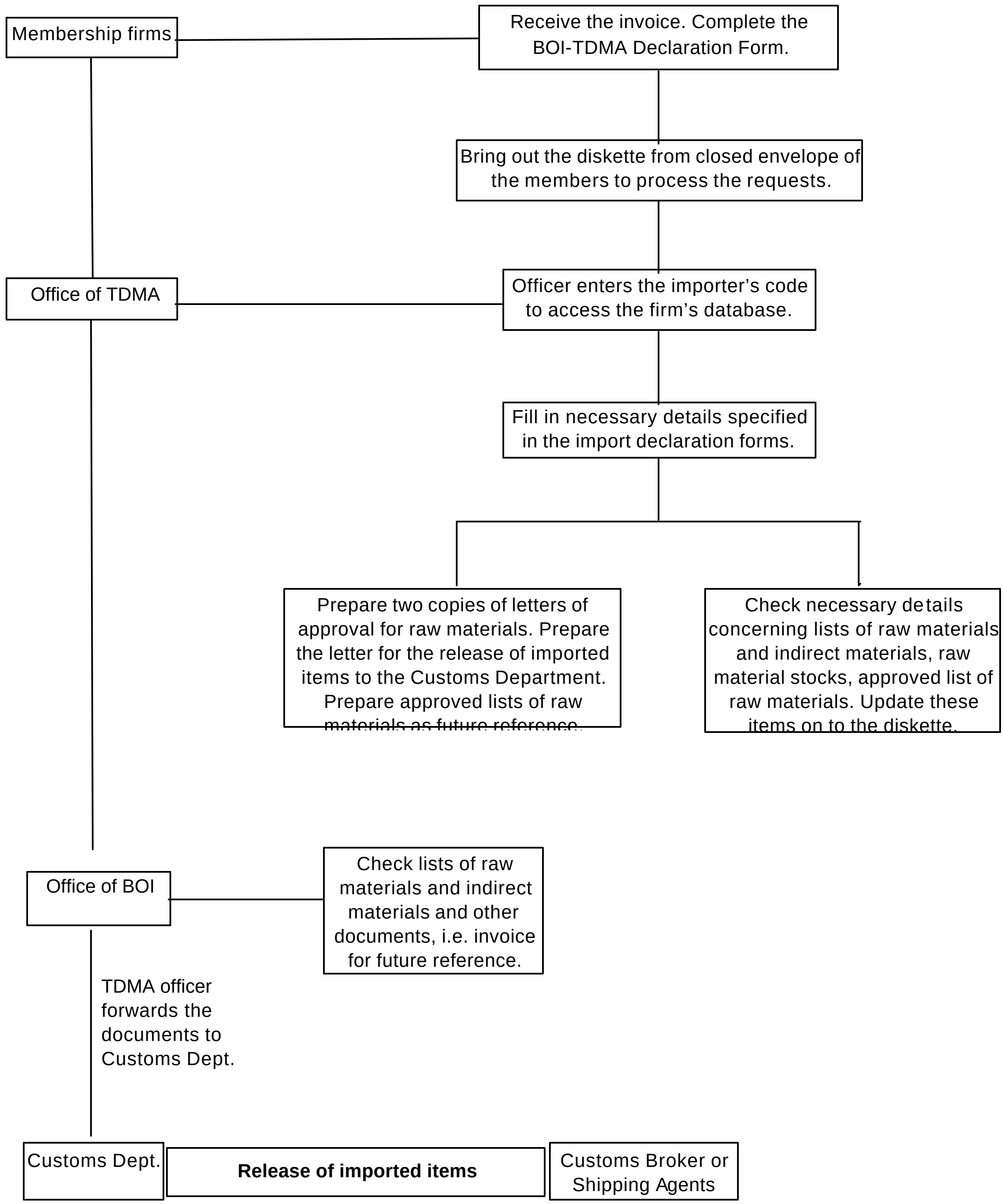
[9] Refer to Time-Frame table for BOI in the Annex.

Table 19. Comparison of estimated time frame between the traditional system and the RMTS.

Procedures	Details	Previous system		RMTS	
		Time involved	**Administering agent**	**Time involved**	**Administering agent**
Approval of production formulae	• Check the formulae • Approve the formulae	30 days	Office 1–7	30 days	Office 1–7
Approval of raw material clearance	• Check total import values • Register the raw material stock • Approval for duty exemption	3 days	Office 1–7	3 hours	Investor Club Association BOI Officer
Approval of stock deduction	• Check total export values from export declaration form • Calculate the amount of raw materials used • Approval of stock deduction	15 days for normal case 9 days for urgent case	Office 1–7	1 day	Investor Club Association BOI Officer

Source: BOI Seminar Supplements, July 1998.

Figure 4. TDMA importation process.



Source: BOI Seminar Supplement, July 1998, p. 46.

In addition to such privatization, the BOI has also attempted to solve the problems associated with biases against existing manufacturers and small firms. Several schemes have been introduced since July 1997. Firstly, the reduction of required registered capital from 5 million baht to only 1 million baht aims to create rooms for small firms to apply for its promotional privileges. Furthermore, to enable existing manufacturers to use the BOI's promotional benefits, the BOI has thoroughly studied advantages and shortcomings for unconditional and conditional provision of BOI's privileges. As a result, the BOI announced its support of export manufacturers who have not been registered to BOI's promotional privileges by employing the "Conditional Provision of Promotional Privileges." This provision issued promotional certificates to existing export manufacturers under specified conditions, including the following.

- Industries with high export values, i.e., textile industries, diamond industry, food industries, footwear and leather industries.
- Manufacturers that export at least 80% of total sales.
- Certified manufacturers from corresponding industrial associations.

The rationale behind this proposal stems from the fact that the TDMA proves to be effective in supporting firms of the same industry. Hence, the decentralization of BOI operations to such industrial institutions not only reduces operational delays at the BOI, but also creates equivalent opportunities for firms regardless of industry. Moreover, the problems in approval of production formulae are eliminated as well, given that corresponding industrial institutes have an in-depth understanding of production processes and raw materials used.

Currently, the BOI has introduced this joint system similar to the TDMA to textile and leather industries. Governing steps are listed below.

1. To obtain promotional privileges, a manufacturer must complete the following.
   1.1 Corresponding trade associations are responsible for screening eligible manufacturers to apply for the BOI's promotional certificate.
   1.2. Each potential manufacturer must submit an application form which is less detailed than that of the new project application.
   1.3 BOI approves and issues the promotional certificate.
   1.4 Registered manufacturers must file the production formulae and the list of raw material for approval with the BOI.
   1.5 They are required to use the raw material tracking system.

2. The following promotional privileges are granted.
   2.1 Existing manufacturers who are granted privileges of the BOI are entitled to the benefits according to the Investment Promotion Act 36 No. 1 and No. 2, so as to reduce the raw material costs from import duty.

Finally, the BOI has implemented several short-term oriented measures to support exporters. First, promoted export projects are allowed to obtain duty exemption on the import new machinery with more advanced technology. Second, leather and textile manufacturers are now entitled to import duty exemption on raw materials or merchandise for re-export provided that they are certified by corresponding industrial associations and have applied for the BOI's promotional certificate during the past two years.

Our industrial survey has indicated satisfactory results towards policy reforms in the BOI. Manufacturers who use the service of IC are generally satisfied with this privatization scheme. Other schemes, such as the reduction of registered capital and short-term promotion policies, are also praised by the public. Despite this administrative overhaul, the BOI now encounters a serious problem in its promotion system. Recently, the Customs Department has found that the lack of sufficient control of BOI over its promoted firms, and loopholes have been created for manufacturers to smuggle tax-exempted merchandise or finished products for sales in domestic markets. As a result, the estimated loss of import duty of smuggled merchandise is 516 million baht in 1998 (*The Daily Manager Newspaper,* October 28, 1998).

As for other measures such as the bonded warehouse and EPZs, there have been minor changes with respect to admission conditions. First, the bonded warehouse has lowered the required registered capital from 25 million baht to 10 million baht. Second, the Industrial Estate Authority of Thailand has allowed such industries as services and trading firms to situate within EPZs, unlike the previous requirement of manufacture exporters.

To conclude, Thai export-facilitating institutions have become more responsive to public criticism in recent years. They have conducted public surveys to discuss policy alternatives for improving their administration of these export platforms and amending their operational weaknesses. A large number of positive reforms, both short- and long-term, have been implemented recently to solve such problems as bureaucratic delays, inefficient services, complicated approval processes for production formulae and raw materials, and excessive financial requirements which could lead to liquidity of manufacturers.

Annex 1. Procedural Analysis For Export Promotion Platforms

1. Duty Drawback Provision

Enacted by the Customs Act (No.9) B.E. 1972 and defined under the section 19 bis., the duty drawback provision states that for any good which has been imported and on which duty has been paid, the duty shall be repaid as drawback if the good is re-exported. It also states that if any goods have been exported that are produced from, mixed, assembled, or packed with imported goods, the import duty already paid on such imported goods shall be repaid as drawback to the importer.[10] In the preceding definitions of the duty drawback, certain conditions were required to obtain the refund on paid duty. However, the new duty drawback provision has no admission requirements that render manufacturers ineligible. Tax refund privileges are available under this system regardless of a firm's status as an importer, an exporter, or a manufacturer dealing with the importation of intermediate goods or merchandise for export purposes.

1.1 Requirements of the duty drawback.

- Upon arrival of imported merchandise, the importers must requite the import duty and VAT required for the corresponding items.
- The goods, approved by the Customs Department, must be re-exported within one year from the date of importation.
- The goods must be exported within one year from the date of importation of the goods used in producing, mixing, assembling, or packing the exported goods.
- A refund on VAT must be made to the Revenue Department in the following month.
- A claim on drawback must be made within six months from the date of re-exportation of goods, with the possibility of extending the stipulated time-frame for an additional six months.

1.2 Fiscal incentives under the duty drawback provision.

- Advanced payment of import duty on goods, as specified in the Customs Act, is fully refundable as a drawback.
- Import duties can be paid using cash, a check from the Bank of Thailand's, a bank guarantee check, a cashier's check from a bank, a certified check from a bank, a commercial bank guarantee, or treasury bill issued by the Ministry of Finance.
- Required rate of payment for the import duty for "excellent" exporters is reduced to 5%, on the condition that qualified companies use a commercial bank guarantee as collateral for the settlement on obligated duty payments.[11]
- Required rate of import duty is reduced by 50% for trading firms and firms whose qualifications satisfy the Customs Department. A commercial bank guarantee is used to settle the advanced import duty payment.
- A special agreement exists between the Customs Department and KrungThai Bank such that the bank offers a guarantee for the payment on import duty without requiring the full amount of cash—the cash equivalent to the value of import duty—to be deposited in the bank.

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[10] Customs Law, English Version, 1985.

[11] This classification of "excellent" exporters is part of the recent attempt by the Customs Department to expedite its drawback approval process.

1.3 Process for duty refund.

Table A-1 outlines the steps required to claim the duty drawback, and Table A-2 estimates for the time required to complete the process for each defined category of exporter. Each of the duty refund steps is then outlined in detail in this section.

Table A-1. Process for duty refund.

Manufacturers	Time Frame	Customs Department
1. Approval of preliminary documents and statement of intent	3 days	Division of production formulae and duty refund
2. Importation of raw materials	--	--
3. Produce final products	--	--
4. Submission of production formulae	within 30 days	Division of production formulae and duty refund
5. Export	--	--
6. Import duty refund and revoke bank guarantee	within 6 months	Division of production formulae and duty refund

Source: Customs Department.

Table A-2. Estimated time frame for each step of the duty refund.

Category of exporters	Approval of principles	Examination of production formulae	Approval of production formulae	Product specimen examination	Duty refund
General	3 days	30 days	7 days	Required	30 days
Good	2 days	20 days	5 days	Required	20 days
Excellent	1 day	10 days	Post-Audit	Occasionally	15 days

Source: Customs Department.

Approval of preliminary documents and statement of intent. To claim for the drawback, prospective agents are required to submit the following documents.

- List of raw materials used to produce the final goods and description of products manufactured.
- Statement of intent, which details all terms, conditions, and any special privileges to which the manufacturers are entitled. For instance, one must specify the required rate for import duty, and whether the rate is reduced by 50% or 95% as for the general and excellent exporters, respectively.

Once the Customs Department grants the tax refund privilege under the duty drawback, the code for importer is issued to the prospective manufacturers. This importer code identifies the Duty Drawback Division or set of officers with whom they must arrange their drawback reimbursement.

Importation of raw materials. To claim the duty drawback, manufacturers must supply the following documents to the duty drawback counter at the Customs Department upon arrival of imported merchandise.

- Entry Manifest and the attached Bill of Entry[12]
- Packing lists
- Commercial invoices

Approval of production formulae. Prior to exporting the final products, production formulae and the relevant documents listed below must be submitted to the Customs Department.

- Description of products manufactured
- Explanation of manufacturing processes
- Two copies of the production formulae
- Specimen of the raw materials used in the production process and product samples

The preceding documents and materials must be submitted to the Customs Department for price and product examination. Within 15 days, it will then report to the Duty Refund Division for approval of the drawback, after which the process should be complete within 7 days.

Import the duty refund.

- The drawback duty refund is approved within 30 days.
- Manufacturers must file for duty refund within six months from the date of exportation.
- Waste materials are also allowed for duty refund.
- Abolish the 10% special duty to help reduce the cost and expenses for manufacturers.

2. Bonded Warehouse

According to the Customs Act B.E. 2569, the importer can store its imported goods for up to one year in a specially-authorized private warehouse without having to pay import duty, if the import entry is filed within 10 days of the goods' arrival and if the goods are moved to the authorized warehouse within 15 days once entry is approved. This warehouse is called a bonded warehouse, and most goods can be kept there as except-duty-paid goods—goods on which security deposits have already been made—or as goods which such a warehouse is not authorized to keep.[13] Specifically, a customs bonded warehouse is a building or another secured area in which dutiable goods may be stored or manipulated, or may undergo manufacturing operations, without payment of duty. It targets export manufacturers, whose raw materials or intermediate goods must be imported, but whose total sales are at least 50% exported.

2.1 Conditions and documents required for establishing the customs bonded warehouse.

- Manufacturers, importers, and exporters in the same entity
- Registered capital of 10 million baht
- 10,000 baht annual fee paid to the Customs Department
- Semi-annual report showing import-export activities and volumes
- Financial statements for the past three years
- Corporate licenses
- Factory blueprints

[12] The attached Bill of Entry is the document which could be used in place of the true copy of the Bill of Entry.
[13] Information Handbook on Taxation in Thailand, Revised Edition, Ministry of Finance, 1982.

- Bank guarantee amounting to 10% of the remaining inventory for quarterly accounting date

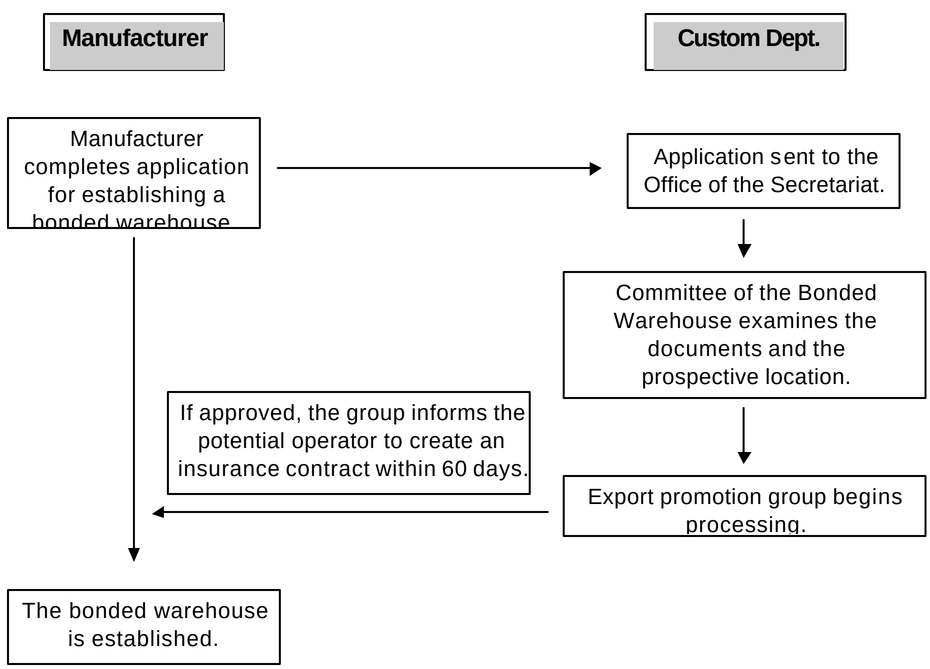
2.2 Conditions that must be met for the customs bonded warehouse.

- Raw materials imported under the bonded warehouse must be used solely for export purposes, or else applicable duties will be charged.
- Area for establishing the bonded warehouse must be secured strictly.
- Applicants must be able to begin the bonded warehouse once the permission is granted. That is, the warehouse must be ready to operate.
- Prior to operation, manufacturers must inform the administering department for bonded warehouses so that the department can consider whether they should allocate the on-site customs officer.

2.3 Privileges of the bonded warehouse.

- Exemption is offered on import duties, export duties, and VAT for merchandise subsequently exported, and on raw materials, spare parts, or accessories used in the manufacturing processes for export industries.
- Exemption is offered on import duty for essential items for manufacturing processes, such as lubricants, machinery, and spare parts.
- Exemption is offered on import duty for wasted material and other essential inputs.

Figure A-1. Process for establishing the bonded warehouse.



2.5 Approval of raw material or input deduction.

- Before exportation, production formulae must be submitted to the Customs Department. The inclusion of the ratio of wasted material in the production formulae is optional.
- If the wasted materials are not specified in the production formulae, products and raw materials must be kept for further inspection and input deduction.
- Before approval of the production formulae, Customs officers will visit the production site to examine the firms' production processes.
- The quantity of raw materials, merchandise, and other intermediate goods allowed for importation is unlimited. Nevertheless, all imported merchandise must be exported within 2 years, or else the applicable customs duties will be charged on the remaining proportion.
- Six consecutive quarterly reports on the importation and exportation of raw materials must be submitted to Customs officers.

3. Duty Compensation

The Duty Compensation Act of the Customs Department states that all duties or taxes paid on or implicit in raw materials, as well as accessories, parts, machinery, fuels, electricity, etc., will be compensated to importers or manufacturers in form of the tax card. Duty compensation is not applicable to income tax, state tax, or any other refundable tax.

3.1 Conditions for using the duty compensation.

- Qualified manufacturers for duty compensation include:
  - Exporters under Customs Act B.E. 2469, or other pertinent laws.
  - Manufacturers whose products are distributed mainly to state-owned divisions, or state enterprises that fall under foreign financial aid programs.
  - Manufacturers whose products are sold to transnational organizations or firms that are permitted to import goods with exemption on import duty.
- Allowable goods for tax compensation
  - Merchandise which is locally produced, mixed, or assembled, and subsequently exported. (Customs Act B.E. 2469)
  - Merchandise which is exported for commercial purposes, thus excluding those sent as product specimen.
  - Merchandise sold to any state divisions or state enterprises that are financially supported by foreign loans.
- Duties on merchandise such as machinery, equipment, spare parts, and accessories, or other goods utilized in the production process, are allowed compensation through the tax card.
- The compensation rates on paid duties are announced in the handbook for duty compensation, which is available from the Customs Department.
- The Duty Compensation Committee is given the right to determine appropriate remittal rates.

3.2 Benefits from the tax card.

In addition to the duty compensation on approved merchandise, the tax card could implicitly help reduce the cash requirement for any payment on duties or taxes. Each tax card has the life of three years and is extendible. It can be used as a credit payment instead of using cash on the following items.

- Import duties, other taxes of the Customs Department, or those of the Internal Revenue Department
- Deductible tax at the Internal Revenue Department
- VAT and other duties at the Customs Department

Table A-3. Procedures for obtaining the tax card.

Activities	Customs Department	Time involved
Prepare the Export Manifest and the petition form for duty compensation.	Duty Compensation Division	- Excellent exporter: 1 day - Fine exporter: 3 days - General exporter: 5 days.
Grant approval for duty compensation	Check required documents	- Excellent exporter: 10 days - Good exporter: 15 days - General exporter: 20 days
Issue the tax card	Issue the tax card	- Excellent exporter: 3 days - Good exporter: 5 days - General exporter: 7 days

Source: Customs Department Seminar Supplement, July 1998.

4. The BOI's Promotion Certificate[14]

Enacted by the Investment Promotion Act B.E.2522 No.1 and No.2, the BOI's promotion certificate aims to facilitate and to stimulate investment projects in Thailand, and to reduce the cost of imports used for production and assembly for export manufacturers. Accordingly, the BOI's Investment Promotion Act focuses mainly on the tax and non-tax privileges offered for international corporations, and on the exemption of import duty on machinery, raw materials, and essential inputs for export manufacturers.

4.1 Promotional incentives granted for investors.

Fiscal incentives

- Exemption or reduction of import duties on imported machinery.
- Reduction of up to 90% of import duties on imported raw materials and components.
- Exemption of corporate income taxes for 3 to 8 years, with permission to carry forward losses and deduct them as expenses for up to 5 years.
- Exclusion of dividends derived from promoted enterprises from taxable income during the corporate income tax holiday.

Joint incentives between IEAT and the BOI

- Reduction of 50% of corporate income tax for 5 years after the termination of a normal income tax holiday or from the date on which income is earned.
- Allowance to double the cost of transportation, electricity, and water supply for deduction from taxable corporate income.
- Allowance to deduct up to 25% of the investment costs of installing infrastructure facilities from the taxable corporate income for 10 years from the date on which income is earned.

Additional incentives for export enterprises

- Exemption of import duties on imported raw materials and components.
- Exemption of import duties on re-exported items.
- Exemption on export duties.
- Allowance to deduct from taxable corporate income an amount equivalent to 5% of an increase in income derived from exports over the previous year, excluding the cost of insurance and transportation.

[14] Information obtained from the Guide to the Board of Investment.

4.2 The overall process for investors under the BOI's promotional privileges.

The overall process for investors under the BOI's promotional privileges is two-fold: one part is the BOI's definitions and the other is the complete functional import-export cycle for manufactures. According to the Guide to the Board of Investment 1996, the overall procedures can be summarized into three main steps, which are 1) application for and granting of the BOI's promotion privileges, 2) action required after the project is approved for promotion, and 3) action required after the investment promotion certificate is issued. However, to clearly depict the complete cycle for manufacturers, we shall include additional steps on import, export and claim of promotional privileges. Thus, the complete cycle is illustrated below.

Table A-4. BOI's generalized process and the import-export cycle.

Comparable BOI's definition	Manufacturers	Administering agencies
Step 1 and 2: Application for and granting of promotional privileges.	1. Application for the BOI's promotional certificate.	BOI
Step 3: Procedures for import of machinery and raw materials.	2.Approval of the list of raw materials and production formulae.	BOI
--	3. Import the approved items.	--
Step 3: Procedures for import of machinery and raw materials.	4. Approval of raw material and input clearance.	BOI
--	5. Authorized release of imported items.	Customs Department
-- --	6. Manufacture the products. 7. Export the products.	-- Customs Department
Step 3: Procedures for import of machinery and raw materials.	8. Approval of raw material/input deduction.	BOI

4.3 Stage one: application for and granting of the BOI's promotional certificate.

Criteria for project approval.
The following criteria are used for projects with investment capital (excluding the cost of land and working capital) not exceeding 200 million baht, or approximately 5 million USD.

- The value added is not less than 20% of sales revenue, except on projects which export at least 80% of total sales, projects using domestic agriculture products as raw materials, or projects that involve conserving, restoring, or developing natural resources and the environment.
- Registered capital of a newly established project amounts to at least 20% of total investment. For expansion projects, the proportion of registered capital to total investment is considered on a case by case basis.
- Modern machinery, production processes, and new equipment are used. In cases where an older process is used, its efficiency must be certified by a reliable institution and the Board must approve its installation.
- Adequate environmental protection systems are installed.

For projects with investment capital (excluding the cost of land and working capital) in excess of 200 million baht, the following additional considerations apply.

- The impact of the project on its own industry and related industries.
- The impact on government revenue and any additional burden on the government in relation to the project.
- The effect on consumers.
- The contribution to technological development.

When considering approval of foreign investment in a wholly-owned foreign project, or foreign equity participation in a joint venture project to which investment promotion has been granted, the BOI uses the following criteria.

- For investment projects in agriculture, animal husbandry, fishery, mineral exploration, and mining, or for projects in the service sector, Thai nationals must hold not less than 51% of the registered capital. However, for projects with investment capital (excluding the cost of land and working capital) over 1,000 million baht, foreign investors may initially hold a majority.
- For manufacturing projects, if production is mainly for the domestic market, Thai nationals are required to own shares totaling not less than 51% of the registered capital, except for projects located in zone 3. For those projects, foreign investors are permitted to own up to 100% of the shares and there is no export requirement.
- In zones 1 and 2, where at least 50% of total sales are for export, foreign investors may hold a majority of the shares.
- In zone 1 or zone 2, where at least 80% of total sales is to be exported, foreign investors may hold all the shares. It should be noted that according to the BOI's announcement in December 1996, potential projects must bear 1,000,000 baht of registered capital in order to apply for the BOI's promotional certificate.

Application for and granting of the BOI's promotional certificate.
An investor who seeks promotional privileges under the Investment Promotion Law may obtain three free copies of the application form from the Investment Services Center of the Office of the Board of Investment. Once the application forms are submitted to the Office of the Secretary, the Board does one of the following.

- Approve the application and decide on the conditions for promotion;
- Reject the applications as being unsuitable at the time; or
- Refer the application to the Office of the BOI for further clarification and/or additional information. In such cases, the application will be scheduled for another hearing.

Action required after the project is approved for promotion.

- The BOI will inform the applicant in writing within 15 working days of the approval date, detailing the conditions, privileges, and benefits granted.
- Upon receipt of the BOI's letter approving the project, the applicant must reply in writing within one month. If any changes or special conditions are sought, they should be requested at that time.
- If the applicant is unable to reply within the stated time limit, a letter of clarification should be sent to the Office of the BOI, which will consider extending the deadline. Deadlines may be extended by not more than one month at a time, and may be granted up to a maximum of three times.
- In order to receive the investment promotion certificate, the applicant must set up the company within six months of accepting the approval, and must submit all of the following documents to the Office of the BOI.
  - A memorandum of association.
  - A certificate of business registration.

- A certificate stating the registered capital, a list of directors indicating those empowered to bind the company, and the address of the head office.
- A list of shareholders and their nationalities.
- A document showing the transfer of funds from overseas, or a certificate of investment from overseas issued by the Bank of Thailand for foreign investors.
- A joint venture contract, licensing agreement, technical assistance contract, and/or technology transfer contract.
- A complete investment promotion certificate application form.

While awaiting the BOI's reply and the issuance of the investment promotion certificate, the applicant must report how the project is progressing. If the applicant is unable to submit the documents within the required time limit, an explanatory letter must be sent to the Office of the BOI. This Office will then consider extending the deadline by four months at a time, up to a maximum of three times.

The BOI will issue the investment promotion certificate after receipt of all specified documents, and the promoted company must closely follow the conditions laid out in the promotional certificate.

Action required after the promotion certificate is issued.
After receipt of the investment promotion certificate, the promoted company must meet the following conditions and inform the Office of the BOI at each stage.

Construction of manufacturing plants.

- Within ***6 months*** of the issuance date, the promoted company must initiate the project by starting factory construction (purchasing machinery etc.), and must submit all relevant documentation to the Office of the BOI at each stage.
- Within ***24 months***, the machinery and equipment must be imported in order to benefit from the reduction of, or exemption from, taxes and duties.
- The Office of the BOI must be notified in writing ***at least 15 days before*** factory operations commence, in order to allow an officer to inspect the premises. If everything is in order, the Office of the BOI will issue an official permit to start operations.
- Every ***6 months*** the promoted company must make a report to the Investment Promotion Division. An annual report must also be sent to the Office of the BOI, and an officer from the Investment Promotion Division will check whether the conditions of promotion are being adhered to (e.g. local raw material usage, employment conditions, use of technicians, foreign exchange savings, export quantities, and some others specified in the promotion certificate).

4.4 Required activities before and after importing machinery and raw material.

Approval of list of raw material/maximum stocks and of production formulae before import.

- Upon approval, and before purchasing the machinery, the promoted company must contact an officer in the respective Investment Promotion Division and provide a detailed list of the machinery and/or quantity of raw materials to be used, along with the production formula, in order to qualify for tax exemption or a reduction in tax.
- According to the BOI's announcement no. 9/2536, the following documents are essential for the approval of the list of raw materials.
    - List of company's goods that will be produced.
    - Production process.

- Production formulae, showing the list and the number of raw materials used per unit of the final product, including the remnants.
- Forecast of export volumes or customers' orders per year.
- List of the maximum stocks of raw materials and other essential inputs.
- Explanatory notes on each item.
- Specimen or photographs of the requested or listed raw materials.

Approval for raw materials and input clearance.

- When the machinery or raw materials are being imported, or once they have been imported, the promoted company must inform the Investment Promotion Division, attaching a list of the imports with all relevant documents, and the Office of the BOI will notify the Customs Department to release the machinery of raw materials according to the approved privileges.
- Such documents include two copies of the invoice, two copies of the packing list, two copies of the Bill of Lading or Airway bill.

Approval for raw material and input deduction.

- Once the manufacturers export their products, they must file an application for the approval of raw materials and input deduction within six months from the date of export. (BOI's announcement 25/2535.)
- Manufacturers must then submit the relevant documents for approval from the Office of the BOI.
  - Documents used in export procedures.
  - Invoice.
  - Packing list.
  - List of raw materials used for each model of product from the approved production formulae.
  - Summary of the amount of raw materials used in the production process for export, based on the collected document above.
  - Summary of the use of domestic raw materials.

4.5 Control and appraisal by the BOI.

- Machinery. The BOI officer will visit the factory approximately once a year to check whether the imported machinery is in use.
- Raw material and essential input.
  - A report on the use of raw material and other essential inputs must be submitted by the expiration date of the promotion certificate, at which point the BOI officer will visit and evaluate the factory performance.
  - The import of raw materials which are duty-exempted must be used in manufacturing process and exported within six months.
  - Within six months from the day of export, the manufacturer must submit relevant documents for raw materials and input deduction and close the raw materials account within one year, or else the manufacturers are compelled to settle the import duty on the remaining materials.
- Export and tax payment
  - Promoted manufacturers must submit the marketing plan to the Office of the BOI, detailing the proportion of products sold in domestic market, as well as the amount of raw material and other essential inputs used.

5. Export Processing Zones

"EPZs are special enclaves within the economy in which investing firms, mostly but not entirely foreign, enjoy favored treatment with respect to imports of intermediate goods, company taxation, provision of infrastructure, and freedom from industrial regulations applying elsewhere in the countries."[15]

5.1 Qualified manufacturers for EPZ.

With reference to the Industrial Estate Act B.E.2522 (1979) and the Industrial Estate Act (No.2) 2534 (1991), the IEAT formerly granted permission only for manufacturing export business to establish factories in the EPZ. In addition, it required that the wholly 100% manufacturers for export were authorized to apply for rights in the EPZ.

Nevertheless, since the amendment of the Industrial Estate Act (No.3) 2539 (1996), the EPZs have been offering several favorable privileges. First, the EPZs now covers the complete process related to the facilitation of export. The types of activities allowed in EPZs presently incorporate trade and services. Second, in terms of production for export purposes, the authority now allows the manufacturers in EPZs to sell their products in domestic markets, provided that the value of export is no less than F.O.B 40% of the total sales (IEAT Announcement, 2/2538). In cases where the export values fall below 40% of total sales, such manufacturers are subject to approval by the IEAT committee.

5.2 Tax and non-tax incentives and privileges.

Privileges

- Land use permission
- Construction permit
- Operation permit
- Set-up recommendation
- Simplified documentation
- Advice and consultation for investors

Table A-5. Fiscal and non-fiscal incentives for EPZ.

Tax	Non-tax
Exemption of import duty and VAT on machinery, components, etc. and material imported for factory construction.	Permission for foreign investors to own land for carrying out promoted activities.
Exemption of import duty and VAT on raw materials.	Permission to bring in foreign technicians and experts to work under promoted projects.
Exemption of export duty and VAT on exported goods.	Permission for foreign technicians, experts, and their spouses or dependents to stay in Thailand.
Exemption or refund of duties and VAT for local goods utilized for production.	Permission to take or remit foreign currency.

Source: IEAT Annual Report 1996.

[15] Peter G. Warr, "Export Processing Zones: The Economics of Offshore Manufacturing," in ASEAN-Australia Working Papers, No.17, 1986.

5.3 Application procedure for industrial operation in the Industrial Estate.

Potential applicants for the EPZ must pursue the following procedures for land use, construction, and industrial operation.

1. Applying for land use for industrial purpose (IEAT-01 Form)
   When the IEAT approves the application, the potential investors must pursue the following:
   - Contract for purchase/hire-purchase/rental of land and building
   - Contract for land use
   - Permit to operate industry (IEAT-02 Form)
2. Applying for Construction (IEAT-03 Form)
   - IEAT's permission
   - Construction Permit (IEAT-04 Form)
   - Applying for Certificate of Building Construction (in case of the building use controlled by law)
   - IEAT's permission
   - Certificate of Building Construction granted
3. Applying for Industrial Operation (IEAT-05 Form)
   - IEAT's permission
   - Notification of Industrial Operation (IEAT-06 Form)

Each step requires approximately 2–3 working days for appraisal and committee approval, depending on the completeness of documents. In case the documents are not in line with IEAT's requirement, the whole process could consume approximately 10–20 days to finish.

Permission for import duty exemption on machinery and raw materials for EPZ companies.

Potential applicants must apply separately for exemption on machinery and raw materials. The first step is to ask permission for tax exemption on imported machinery. First of all, the manufacturers in EPZ must file an application for tax exemption on import duty, VAT, and excise tax. Then, within four working days, the IEAT will consider the approval and the guarantee of duty exemption. The amount of machinery allowed for exemption is subject to the IEAT's consideration.

The second step requires manufacturers to register the list of raw materials with the IEAT so that the IEAT can issue the duty exemption certificate on the registered raw materials. In this case, manufacturers determine the amount of raw material to be imported. Once again, the consideration process takes approximately four days.

Importation.

Manufacturers in the EPZ must transport the imported materials from the port to the Customs Office at each Industrial Estate for verification and additional custom process. An exception to this is when the port and the industrial estate are some distance away from each other, at which time the manufacturers can request permission to transport the raw materials with the customs officers at the port only.

Exportation.

Manufacturers in the EPZ must pass through the custom process at the Custom Office at each Industrial Estate. After obtaining the approval, the manufacturers adjourn to the port for exporting products, and then they must return the approval form signed by custom agent to the Custom Office at the Industrial Estate.

Table A-6. Time frames for project consideration and related procedures.

Activities	No. of working days
Initial project analysis	
- By the Office of the BOI or the sub-committee (for investments of 40–500 million baht)	60
- By the BOI (for investments of more than 500 million baht)	90
Project modifications	
- Changes in location, raw materials import schedule, registered capital, foreign equity share, or reduction in production capacity	5
- Additional privileges, product withdrawal, and sale of by-products	15
- Increase in production capacity, change in type of products, change in method of production, change in exporting condition, or transferring of promoted activities	30
Promotion certificate issuance	
- Extension of promotion acceptance period	7
- Issuing promotion certificate	10
Clearance of machinery imports	
- Approval of use of bank guarantee	3
- Approval of machinery clearance	7
- Approval of bank guarantee withdrawal	7
Clearance of machinery imports	
- Approval of raw material and input clearance	3
- Approval of use of bank guarantee	3
- Approval of bank guarantee withdrawal	3
- Approval of raw material/input deduction	9–15
- Approval of input formulae and maximum stocks	30
Other investment services	
- Changes in factory construction schedule	36
- Changes in machinery import schedule	45
- Issuing factory establishment permits	
• In Bangkok	15
• In the regions	45
- Issuing factory operating permits	
• In Bangkok	15
• In the regions	30
- Granting permission for foreigners	
• To conduct feasibility studies	15
• To work in promoted activities	45
• To own land	5
• To mortgage land	3
• To own a condominium unit	5

Source: Guide to the Board of Investment.

Table A-7. Joint incentives between the BOI and the IEAT.

ZONE 1	ZONE 2	ZONE 3
	CORPORATE INCOME TAX	
	General Industrial Zone / Export Processing Zone / Free Trade Zone	
100% exemption for 3 years	100% exemption for 7 years	100% exemption for 8 years plus reduction of 50% for another 5 years
	DUTIES ON CAPITAL GOODS	
	General Industrial Zone	
Pay 50%	Pay 50%	Pay 50%
	EPZ—Incentives by IEAT	
Free	Free	Free
	DUTIES ON IMPORTED RAW MATERIAL	
	General Industrial Zone	
Exemption for 1 year if export at least 30%	Exemption for 1 year if export at least 30%	Exemption for 5 years if export at least 30% and pay 25% for 5 years for domestic sales.
	EPZ—Incentives by IEAT	
Free	Free	Free
	VAT, EXCISE TAX, SURCHARGE IMPORT (BOI), AND EXPORT DUTY (IEAT)	
	General Industrial Zone	
Normal Rates	Normal Rates	Normal Rates
	EPZ—Incentives by IEAT	
Free	Free	Free
	TRANSPORTATION, ELECTRICITY, AND WATER SUPPLY	
	Double Deduction from the cost from Taxable Income	
	General Industrial Zone / EPZ	
NA	NA	For 10 years
	INFRASTRUCTURE FACILITIES	
	Deduction from the cost of Taxable Income	
	General Industrial Zone / EPZ	
NA	NA	25%

Source: Guide to the IEAT.

Annex 2

Table A-8. Cost structure for manufacturing exporter, classified by industry, 1998 (in %).

Cost Structure	Leather	Jewelry [1/]	Electronics	Textile [2/]
Materials	60	77	30	60
Wages [5/]	30	10	3	6
Depreciation and maintenance	5	1	10	4.3
Utilities and expenditure in factory	3	7	8 [3/]	2.4
Interest	NA	3	NA	4.1
Tax	NA	NA	NA	NA
Others	2	4	40 [4/]	23.2

Note: 1/ Cost structure of diamond cutting manufacturing
2/ Cost structure of weaving manufacturing, data from Weaving Manufactured Association, 1996
3/ For electric expenditure only
4/ Included fix cost and indirect materials
5/ Average Wages for Operational Worker Amount to 8,000–14,000 baht
Source: TDRI, Firms' Survey, 1998.

Table A-9. Cost for door-to-door shipment of SIN (in USD).

DESCRIPTION	MIN (wt 1–30 kg)	-45 (wt 44 kg)	+45 (wt 99 kg)
INBOUND			
(Factory to port SIN)			
Inland handling charge	18.8	27.5	42.1
Freight charge	18.8	18.8	18.8
(Port BKK to NS)			
Inland handling charge	63.8	63.8	63.8
Total Inbound	**101.4**	**110.1**	**124.7**
OUTBOUND	**wt 1–17.5 kg**	**wt 44 kg**	**wt 99 kg**
(Factory NS to Port BKK)			
Inland handling charge	43.5	43.5	43.5
Freight charge	17.5	44.6	44.6
(Port SIN to factory)			
Inland handling charge	101.3	101.3	101.3
Total Outbound	**162.3**	**188.8**	**189.4**
DOOR TO DOOR COST	**263.7**	**298.9**	**314.1**

Source: TDRI, Firms's Suvey, 1998.

Table A-10. Customs import tariff classified by industries.

Industrial classification	Rate of duty (Ad valorem)
1. Appliances and electronics	
- Electronic parts	1
- Printed circuits, copper pipe, and wire	10
- Metal accessories	20
2. Textile industry	
- Yarn	10
- Thread	10
- Fabric	20
- Clothing accessories	30
3. Food processing	
- Fish including other aquatic (If Imported by air tax rate of 30 % will be charge)	Exempt
- Plants, vegetables, and fruits	30
- Apple	10
- Mixed condiments	30
4. Shoes and leather	
- Raw hides	Exempt
- Leather and furskins	30
- Dyes	10
- Glues	20
5. Jewelry and articles	
- Diamond, precious, and gold	Exempt
- Pearls	1
- Imitated jewelry	10
- Silver	10
- Set	20
6. Automotive and autoparts	
- Steel sheet	10
- Metal accessories	20
- CKD parts	20
- Autoparts	42
7. Plastic	
- Plastic accessories	30
- Plastic granules	20
8. Furniture	
- Metal sheet	10
- Wooden	20

Source: Customs Department.

Table A-11. Transportation cost per shipment.

Inbound Air ($)			**Outbound Air**		
Handling charge/shipment	35		Handling charge/shipment	20	
Transportation	20		Transportation	20	
Terminal charge ave/kg	0.0977		Terminal charge/shipment	3.75	
Total cost (excluded Terminal chg.)	55		Total cost	43.75	

Inbound Sea	FCL 3/	LCL 4/	**Outbound Sea**	FCL	LCL
Handling charge/shpt (for normal shpt)	175	137.5	Handlind charge/shipment	55	47.5
Handling charge/shpt (for M/C shpt)	287.5	162.5	Transportation	50	
Terminal charge/shipment	92.5	--	Terminal charge	113.25	19.25
Terminal charge/CBM	26		Product analysis	10	
Outside port	25		Coolie hire	37.5	37.5
Total cost	305	236	Total cost	168.25	116.75
Total cost for M/C shpt	380	188.5			

Truck In		**Truck Out**	
Handling charge/shipment	80	Handling charge/shipment	80
Coolie hire	37.5		
Total cost	117.5	Total cost	80

Note: 1) Exchange rate: 40 baht in 1 USD.
2) The cost above include per receipt.
3) Rental rate for a container.
4) Rental rate for a container, shared with other firms.

Source: TDRI Firms' Survey, 1998.

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Note: Our efforts to obtain the complete references for this text have been unsuccessful as of the date by which we must press the CAER II CD-ROM. We regret the missing information, but did not wish to withhold the paper from this collection due to this shortcoming. We continue to seek the complete references from the authors and will add them to the web version of the paper as soon as we receive them. ~Charles Mann, Deputy Director, CAER II Project

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